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PROBLEMS OF PROSPERITY

BETTER ECONOMIC ORGANIZATION OF AGRICULTURE
INSTALLMENT PURCHASING
THE PROSPECTS OF INDUSTRIAL CIVILIZATION

A SERIES OF ADDRESSES AND PAPERS PRESENTED AT THE ANNUAL
MEETING OF THE ACADEMY OF POLITICAL SCIENCE IN THE
CITY OF NEW YORK, NOVEMBER 17, 1926

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PREFACE

ANNUAL MEETING (FORTY-SIXTH YEAR) OF THE ACADEMY
OF POLITICAL SCIENCE, NEW YORK CITY,
NOVEMBER 17, 1926

BUSINESS and Public Policy was the general topic for discussion at the National Conference which constituted the Annual Meeting (forty-sixth year) of the Academy of Political Science, at the Hotel Astor in New York City on November 17, 1926.

The addresses and papers presented at the Conference are published in this volume, together with a paper, read only by title at the meeting, by Mr. Charles J. Brand on "How Seasonal Requirements of Agriculture Affect Dependent Industries"; a paper by Dr. William T. Foster on "The Basic Meaning of the Growth of Installment Selling", which is based on his remarks in the discussion at the first session; a brief paper by Professor Henry R. Seager on "Power on the Farm", similarly based on his remarks in the discussion at the second session; a paper by Dr. Albert Shaw on "Better Economic Organization of Agriculture", being an extension of his remarks as presiding officer at the second session; and finally an abstract of the principal contributions to the general discussion following the first and second sessions of the Conference.

For purposes of convenience and in order to expedite the printing of the proceedings of the Conference the editors have regrouped some of the papers in this publication and followed a different order from that of the meetings. The papers and addresses which were read at the Morning Session, on the subtopic "Installment Purchasing, Its Merits and Demerits", are here grouped together in Part Two of this volume, while the papers and addresses read at the Afternoon Session, on the subtopic "Better Economic Organization of Agriculture", appear as Part One, and the addresses delivered at the Dinner

Meeting by Mr. Peek and Mr. Raskob have been included in Part One and Part Two, respectively.

The central thought of the Conference program was the consideration of some of the newer aspects of our economic and social life that are intimately related and in a sense peculiar to an era of unusual prosperity. On the side of business and industrial activities the questions arising in connection with the rapid growth of installment buying, selling and saving were easily matters of outstanding importance. The depression of agriculture or its lack of parity with other industries in sharing in the general prosperity of the country constituted certainly the second outstanding problem in our domestic economic relations, if indeed it did not deserve first place by reason of its strange perplexities. Thus the two main divisions of the program of the Conference were determined, and the third—the Dinner Meeting, was given over to three addresses, one by Mr. John J. Raskob dealing generally with the subject of "Installment Purchasing", another by Mr. George Nelson Peek on "Agriculture and Industry", and another on "The Prospects of Industrial Civilization", an historical interpretation of the significance of the present era of economic development, by our distinguished British guest Mr. Ramsay Muir, historian, publicist and late member of the British Parliament.

To the Committee on Program and Arrangements, as well as to the speakers and all who participated in the sessions of the Annual Meeting, the thanks of the officers and members of the Academy are due for a profitable and timely discussion of matters that demand clear thinking and require prompt decision both in legislative halls and in the even more important domain of public policy which is governed by the decisions of producers and consumers in their everyday economic life. The members of the Committee on Program and Arrangements were:

SAMUEL McCUNE LINDSAY, *Chairman*

JAMES C. BONBRIGHT	DWIGHT W. MORROW
ALFRED C. BOSSOM	MICHAEL J. MURPHY
WILLIAM M. CHADBOURNE	THOMAS I. PARKINSON
JAMES G. HARBORD	JOHN T. PRATT
JACOB H. HOLLANDER	WILLIAM L. RANSOM
RAYMOND V. INGERSOLL	WALTER RAUTENSTRAUCH
INGALLS KIMBALL	HENRY R. SEAGER
THOMAS W. LAMONT	ALBERT SHAW
SAM A. LEWISOHN	FRANCIS H. SISSON
WESLEY C. MITCHELL	PAUL M. WARBURG

ARTHUR WILLIAMS

Although space forbids any attempt to give a complete "Who's Who" of those who participated in the Conference and whose contributions appear in the present volume, readers may appreciate the following brief thumb-nail sketches of some of the chief contributors.

MR. CHARLES J. BRAND, born in Minnesota, and now residing at Washington, D. C. served as Chief of the Bureau of Markets from 1913 to 1919 and as Consulting Specialist in Marketing for the Department of Agriculture from 1922 to 1925. His service with the Department extended through the whole period from 1903 to 1925, with the exception of three years, 1919-1922, during which he was Vice President and General Manager of the American Fruit Growers, Inc. Since 1925 Mr. Brand has been Executive Secretary and Treasurer of the National Fertilizer Association, with offices at Washington, D. C. He is the author of numerous bills, addresses and papers on agricultural cooperation, production, marketing and distribution, and is a recognized authority on some of the practical solutions for the basic difficulties of American agriculture as well as on the human and fiscal elements of the farm problem.

MR. BAILEY B. BURRITT has for twelve years been General Director of the New York Association for Improving the Condition of the Poor. He served on the economic advisory committee of President Harding's Conference on Unemployment in 1921. He has taken an active part in Westchester County government, and was active in drafting the new charter for the county. His conspicuous services in connection with the New

York Association for Improving the Condition of the Poor and his broad acquaintance with the experiences of the philanthropic associations of the country have made him an authoritative interpreter of social data relative to the welfare of the poor.

MRS. FREDERICK BURSCH is Chairman of the Committee on Living Costs of the Connecticut League of Women Voters, Riverside, Connecticut, and has been actively interested in everything pertaining to the cost of living and the methods whereby stabilized price levels can be maintained.

PROFESSOR JOHN MAURICE CLARK follows in the footsteps of his distinguished father as a Professor of Economics at Columbia University. Before he accepted the call to Columbia, he had served as Associate Professor at the University of Chicago from 1915 to 1922, and as Professor from 1922 to 1925. For some years he was a member of the Board of Editors, and for one year Acting Editor-in-Chief, of the *Journal of Political Economy* published at the University of Chicago. He is the author of *Standards of Reasonableness in Local Freight Discriminations* (1909); *Economics of Overhead Costs* (1923); and *Social Control of Business* (1926); and joint author of *Control of Trusts* (second edition 1912) and *Readings in the Economics of War* (1918).

MR. CHESTER C. DAVIS, former editor and manager of *The Montana Farmer*, Commissioner of Agriculture in the State of Montana from 1921 to 1925, and former Director of Marketing for the Illinois Agriculture Association, is now associated with the North Central States Agricultural Conference, the American Council of Agriculture, and the Corn Belt Committee of Farm Organizations. He is one of the leaders in the movement for a new agricultural program.

CONGRESSMAN LESTER J. DICKINSON has practised law at Algona, Iowa, since 1899, and is a director of the First National Bank of Algona. Since 1919 he has represented the Tenth Iowa District in Congress.

DR. WILLIAM TRUFANT FOSTER, former President of Reed College and now Director of the Pollak Foundation for Economic Research, is the author of many educational and sociological monographs, and joint author with Mr. Waddill Catchings of important volumes on *Money* (1923) and *Profits* (1925).

HON. JAMES P. GOODRICH, former Governor of Indiana (1917-1921) and member of the Indiana bar, has held so many offices of honor and responsibility in public life and in business affairs that it is impossible to list them all here. He has served as President of the People's Loan and Trust Company and of the People's Investment and Guaranty Company of Winchester, Indiana; Director of the Union Heat, Light and Power Company of Indianapolis; Receiver of the Chicago, Cincinnati, and Louisville Railroad; member of the Executive Committee of the Great Lakes-St. Lawrence Tide Water Association and, by appointment of the President, member of the International St. Lawrence Waterways Commission. Governor Goodrich has traveled extensively and made investigations in Russia and the Near East. He has interested himself particularly in questions of public administration, financial legislation, and national, state and local budgets.

MR. PHILIP W. HENRY, now a consulting engineer in New York, has been identified with engineering and construction work in Mexico, Haiti, Venezuela, Peru, Bolivia, Argentina, Spain and China, and has been President, General Manager, or Operating Vice President of large concerns in this country and abroad. His wide business experience has led him to take a lively interest in the economic factors of international relations.

PROFESSOR JOSEPH MAYER is head of the Department of Economics and Sociology at Tufts College and has been actively identified with such organizations as the National Industrial Conference Board and the Bureau of Social Hygiene in various lines of economic and sociological research.

MR. RAMSAY MUIR, Member of the British Parliament, 1923-1924, is a distinguished British publicist, scholar, and Liberal. He was educated at University College, Liverpool, and continued his academic career as a Scholar at Balliol; then as Lecturer in Modern History at Owens College, Manchester; Professor of History at the University of Liverpool from 1906 to 1913; and Professor of Modern History at the University of Manchester from 1913 to 1921. Since 1921 he has divided his time between overseas travel, public affairs and politics in Great Britain, and writing. The scope of his interests may be indicated by the titles of some of his publications:—*History of Municipal Government in Liverpool* (1906, in collaboration),

History of Liverpool (1907), *Peers and Bureaucrats* (1910), *Atlas of Modern History* (1911), *Britain's Case Against Germany* (1915), *Making of British India* (1915), *Nationalism and Internationalism* (1916), *The Expansion of Europe* (1917), *National Self-Government* (1918), *History of the British Commonwealth* (vol. I, 1920; vol. II, 1922), *Liberalism and Industry* (1920), *Politics and Progress* (1923).

MR. GEORGE NELSON PEEK, Chairman of the Executive Committee of Twenty-Two of the North Central States Agricultural Conference and President of the American Council of Agriculture, was engaged until recently in the manufacture of agricultural implements. From 1919 to 1923 he was President and General Manager of the Moline Plow Company, of Moline, Illinois. He served as Member of the War Industries Board (1917-1919), and as Chairman of the Industrial Board of the Department of Commerce (1919). Among the honors which have been bestowed upon him in recognition of his public services, may be mentioned the following decorations: the Distinguished Service Medal of the United States, the French Legion of Honor, the Belgian Order of the Crown, the Italian Order of the Crown.

MR. LAWSON PURDY, General Director of the Charity Organization Society of New York City since 1918, has long been prominent as a leader in constructive statesmanship in civic affairs, social work, and philanthropy. He has served as President of the Department of Taxes and Assessments in New York City, Vice-Chairman of the Commission on Building Districts and Restrictions, President of the National Conference on City Planning (1920, 1921), President of the National Municipal League (1916), President of the New York City Conference of Charities and Corrections (1925), Treasurer of the Russell Sage Foundation, and Vice President of the National Information Bureau.

MR. JOHN J. RASKOB is Vice President and Chairman of the Finance Committee of the General Motors Corporation, Vice President of the General Motors Acceptance Corporation, Vice President and Member of the Finance Committee of the E. I. du Pont de Nemours Company, Director of the Seaboard National Bank of New York, of the American Surety Company, and of the Delaware Surety Company.

MR. JOHN E. ROVENSKY has long been an active leader in banking economics as Vice President of the National Bank of Commerce in New York and is now First Vice President of the Bank of America. He is the author of important papers dealing with the financial structure of modern business corporations, the financial system, and taxation.

PROFESSOR HENRY ROGERS SEAGER is Professor of Political Economy at Columbia University, a member of the Board of Trustees of the Academy of Political Science, former President of the American Economic Association and of the American Association for Labor Legislation, former Secretary of the Shipbuilding Labor Adjustment Board (1917-1919), and author of *Principles of Economics* (revised edition 1923), *Practical Problems in Economics* (1923), *Social Insurance* (1910), *History of the Shipbuilding Labor Adjustment Board* (1921), etc.

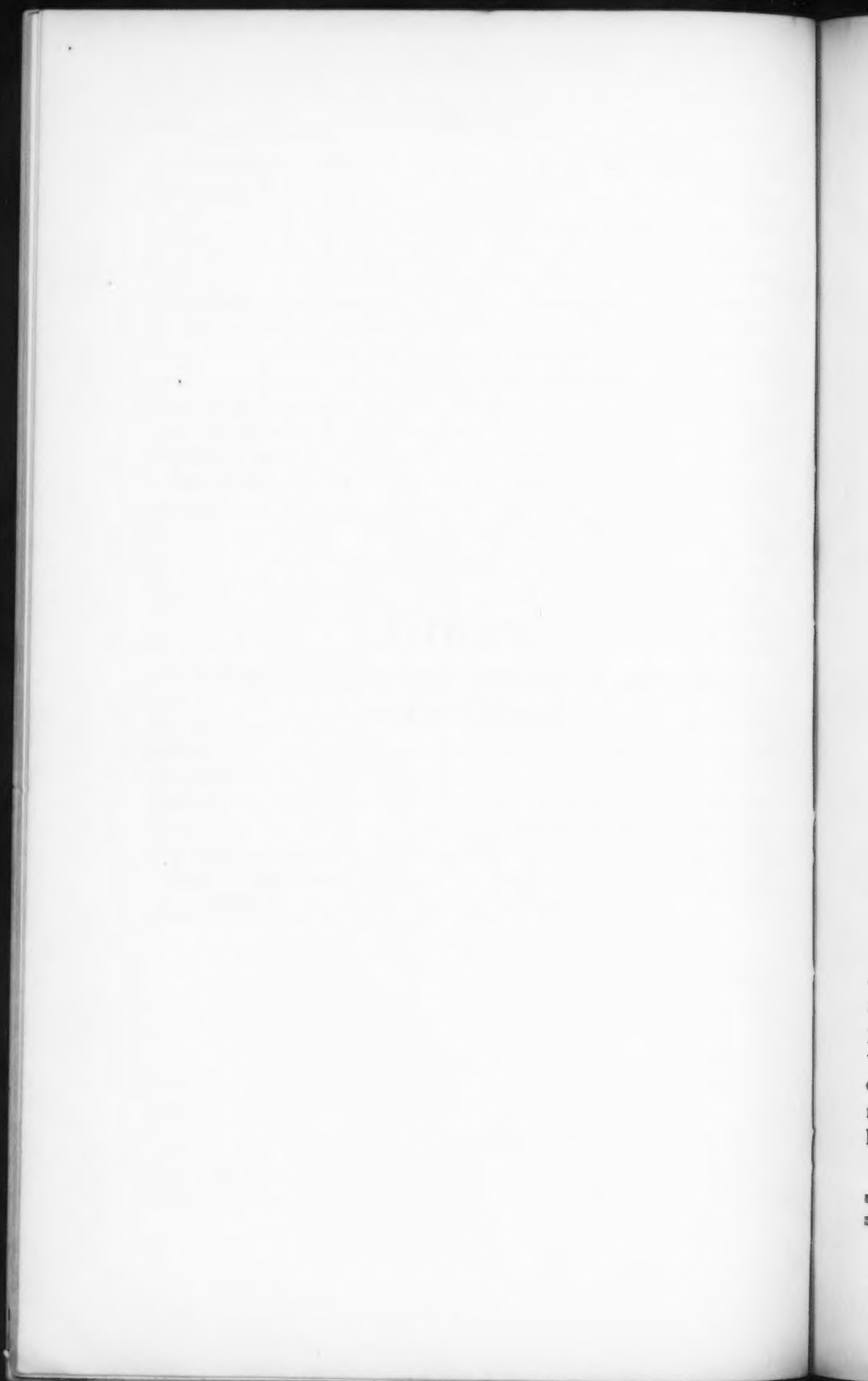
PROFESSOR EDWIN R. A. SELIGMAN, McVickar Professor of Political Economy at Columbia University, is former President of the American Economic Association, of the National Tax Association, and of the National Urban League; member of the Board of Trustees of the Academy of Political Science; and member of many scientific societies in Europe and America. He has served on municipal, state, national and international commissions dealing with economic and fiscal problems. Among the numerous monographs and standard economic treatises of which he is the author, the following may be mentioned: *The Shifting and Incidence of Taxation* (4th edition 1921), *Progressive Taxation in Theory and Practice* (2nd edition 1908), *Essays in Taxation* (10th edition 1925), *Economic Interpretation of History* (2d edition 1907), *Principles of Economics* (10th edition 1923), *The Income Tax* (2d edition 1914), *Currency Inflation and Public Debt* (1921), *Essays in Economics* (1925), *Studies in Public Finance* (1925).

DR. ALBERT SHAW is Editor of the *American Review of Reviews* and author of books and articles on political science, economics, and public affairs. He is a Director of the Academy of Political Science, trustee or member of the governing board of many other educational or philanthropic institutions, and former President of the American Political Science Association.

PROFESSOR HENRY C. TAYLOR taught at the University of Wisconsin from 1901 to 1919, then for a time discontinued his academic work in order to serve the United States Department of Agriculture as chief of the Office of Farm Management from 1919 to 1921, and chief of the Bureau of Markets and Crop Estimates from 1921 to 1922. After three years as chief of the Bureau of Agricultural Economics, from 1922 to 1925, he resumed teaching, as Professor of Agricultural Economics at Northwestern University, Evanston, Illinois. He is also a Research Associate of the Institute for Research in Land Economics and Public Utilities. He is the author of a well known book on *Agricultural Economics* (1919).

MR. ARTHUR WILLIAMS, an engineer by profession, has been associated with the New York Edison Company and its predecessors since 1885. He is now Vice President of this concern as well as of the Yonkers Electric Light and Power Co. and the 42d Street Property Owners and Merchants Association; President of the Electrical Show Company, the Electrical Board of Trade of New York, the New York Edison Savings and Loan Association, and the American Museum of Safety; former President of the New York Electrical Society and of the National Electric Light Association; and director of a number of other business and civic organizations. He has received the decorations of Chevalier de la Légion d'Honneur and Officier de l'Instruction Publique from the French Government, and of Knight of the Royal Order of Isabel the Catholic from the Spanish Government. He has written numerous papers on electrical questions, municipal ownership, and relations between employers and employees.

PART I
BETTER ECONOMIC ORGANIZATION OF
AGRICULTURE



BETTER ECONOMIC ORGANIZATION OF AGRICULTURE¹

DR. ALBERT SHAW

Editor, *The American Review of Reviews*

IT has been shown by official statistics that the year 1926 has been a prosperous one for the American people at large. There has been little unemployment; wages have been high; the improved earnings of invested capital have been reflected in the high level of security prices on the stock exchanges. The distribution of commodities that relate themselves to comfort, and even to luxury in the life of ordinary families, has been upon a more diffused scale than ever before. The sessions of the Academy of Political Science today are in recognition of these current conditions, and are concerned with some particular aspects of what we may call the economic problems of an unusually well-sustained period of national prosperity.

The papers and discussions of the forenoon session have dealt with many aspects of a vastly extended system of credit which is enabling people throughout the country to enjoy the immediate use of articles of a relatively permanent nature that otherwise they could not hope to possess until after the savings of a number of years had made it possible for them to pay cash down. The high wages of industrial workers have further stimulated what is now a contagious ambition to live in a more suitable house or apartment, with better furniture and with conveniences of all kinds. The universal shortening of work hours has resulted in an emancipation from overpressure and fatigue and this has had much to do with the widened market for automobiles, and with the immense growth of demand for everything that provides recreation and amusement. All these things have lifted men and women and households out of the ruts that dire necessity and the fear of

¹ Remarks as Chairman of the afternoon session of the National Conference on Problems of Prosperity, held by the Academy of Political Science at the Hotel Astor, November 17, 1926.

poverty had worn so deep, and had made so familiar, in the industrial decades of the century previous to the present one.

This afternoon's session, over which I have the honor to preside, faces boldly the distinction, from an economic standpoint, between the conditions that prevail in industrial and commercial centers of population and those that we find in this precise period when we examine the economic status of our agricultural population. The farmers also buy automobiles on the installment plan, just as they have for a number of years past been buying increasingly elaborate and ingenious machinery on a credit system involving a series of deferred payments. Scores of thousands of them have bought their farms on a more venerable credit system—one requiring interest-bearing notes secured by mortgages, and calling in many cases for repayment of the principal sum in yearly installments.

But on our program leaflet, the general topic of the afternoon is expressed in the phrase "Better Economic Organization of Agriculture," and this phrasing conveys a certain suggestion of challenge to those who bring forward the glowing statistical aggregates that are meant to convince us that we are all much better off than ever before. The farmers as a whole, through their representative organizations and spokesmen, are asserting that economic conditions are fundamentally wrong in the business of agriculture. Speakers whom I am to introduce this afternoon are well qualified to state the facts as to life, work, and business in the fields of rural industry, and to consider the nature and value of remedial measures that are now under discussion at Washington and throughout the farm States of the Middle and Farther West and the South.

For our purposes, it is desirable to distinguish between farming as a life and agriculture as a business pursuit. Considered from the standpoint of the rearing of families, and the association of such families in the more or less complete organism of neighborhoods, the farm unit is basic in the structure of the American nation.

As compared with city dwellers, the general levels of rural civilization were higher than the levels of culture and economic comfort that prevailed in our towns and cities, from the very beginning of our colonies early in the seventeenth century to a period fairly late in the nineteenth century. When the

superior advantages of city life at length became strikingly obvious, a thoughtful analysis showed clearly enough that pure water supplies, with other applications of medical and sanitary science, had diminished the death rate in cities by at least fifty per cent, while almost unlimited expenditure for schools, and other opportunities for training and culture, had quite revolutionized the condition of city boys and girls as compared with that of their cousins living on the farms.

And thus, even when in many given cases there was better assurance of shelter, clothing, and food on the farm than in the town, thousands of families moved to the population centers in order to give their children the free advantages of schools of every kind, or else to bring the family within the reach of skilled medical service and the many other benefits that had become apparent in towns where clean streets flooded at night with electric illumination, good police systems, and all sorts of entertainments and amusements were near at hand, with neighbors and friends also at close range. These things, together with short and definite hours of work, were giving urban dwellers many blessings that had not become widely distributed to people on the farms, who were in the main still living under the conditions of pioneer days, but with the hope and vigor of the pioneer period mostly oozed away.

It was because of contrasts like this that Congress ordained, at great expense, that radical innovation for the benefit of farm dwellers known as Rural Free Delivery. The telephone came as perhaps the greatest benefit of all, because farm wives could talk with each other even when they could not meet face to face, and the village doctor or the local merchant could be reached in emergencies. The automobile, with its accompaniment of good roads, arrived as a great boon to the farmers. The phonograph came to be a universal solace; and the radio is rapidly making its way throughout the farm neighborhoods. Electricity is only beginning to perform its destined service in our farm homes, but, as one of our speakers will show us this afternoon, country life may be rendered far more convenient and agreeable by a definite policy that will provide for distribution of electric current for light and power.

Upon the whole, we are seeing ways by which those modern advantages that have quite transformed the life of towns-

people may be brought in almost equal measure to the families that cultivate the soil. Throughout many regions of the country, the consolidated rural school, with motor busses to transport the children, is doing more than any other one thing to re-establish rural civilization on the higher level, to bring new hope to farm families, and to allay the restlessness and discontent that had become so prevalent with the breakdown of the one-room country school system.

We have not yet fully grasped the conception that the State itself should, as a matter of deliberate policy, see that country children are provided with educational facilities at the cost of the State, precisely as the poor children of great cities are provided at the cost of all the taxpayers of the municipality, the city itself being one undivided school district.

These considerations have to do with the kind of policies that are meant to support the dignity and the essential quality of our rural civilization. The typical American farmer has not been a grubbing peasant, but a great citizen with a national and a world outlook. It will be a short-sighted and a deplorable policy that drives the better class of farmers away from the country into the town, in order to maintain the dignity of personal and family life and to have assurance of equal advantages in the present period of intelligence and culture.

And still it remains to be said that the policies relating directly to the equalization of social benefits, as between town and country, belong only incidentally to our afternoon's program. The farmer lives without rent payment in his own house, and to a great extent provides his own food. By a local exchange of the lesser products of the farm—those of the poultry yard, the orchard and the garden—the farm family may provide itself with ordinary clothing and some other immediate necessities in the nearest village or the county town.

But the typical American farmer in the Mississippi Valley, in the corn belt, the wheat belt, the cattle and sheep-grazing areas, and in the cotton and tobacco regions of the South, is not merely a farmer who sustains himself on the peasant basis by producing his own cereals, vegetables, poultry, pork, milk and butter. He takes much more seriously his attempt to produce a staple cash crop for the supply of industries and for the consumption of the city dwellers who

now greatly outnumber the farm producers. It is the better organization of this business of producing and marketing staple crops that is the more direct topic of discussion this afternoon.

Older men can remember the time when almost every small neighborhood had its own flour mills and its own sawmills. These small mills went out of existence, not by the hundreds but by the tens of thousands, when the great commercial mills (as, for example, the flour mills of Minneapolis, and the sawmills of great lumber companies) began to demonstrate their advantages in manufacturing and distribution. The farmer had to sell his wheat for what he could get on a system of grading that he did not invent; and then he had to buy the flour for his own daily bread at prices which he had no part in fixing and which bore no relation whatever to the price he had received for his wheat.

Thousands upon thousands of small retail shops in the cities were, in a certain period within the memory of older men, put out of business by the rise of the great department stores. Many of the local traders who had come close to the needs of the farmers were superseded by the mail-order houses that shipped everything, from a pair of gloves to a ready-made barn, from Chicago or elsewhere. In the early period, the farmer's wagons and utensils were largely made in the shops of the local wheelwright and the local blacksmith. Prices paid for these implements bore some relation to the crops that the farmer had raised with these local plows and had marketed in these local wagons. But hundreds of thousands of these shops in the immediate farm neighborhoods were closed by the rise of the great implement concerns, such as the plow works at Moline, the Studebaker wagon factory, the McCormick harvester company, and so on down the list. In due time, the farmer found that there was no alternative and that he must buy his utensils and machines, not on terms that he could help to make but altogether upon terms made by the great industries that manufactured and distributed the articles necessary for his productive work.

Meanwhile, the individual farmer was producing some wheat or some corn or some cotton, and was offering to the market some hogs or some fat cattle, or some products of

dairy and poultry farming, on marketing principles not essentially different from those that had prevailed for generations, excepting that, whereas he had formerly had a large part in saying what price he must have for the things he sold, he had altogether ceased to have any relation whatever to the fixing of price. If his wheat had gone to the local mill and he had supplied himself and the neighboring village with flour, he would have felt himself on terms of equality in the market. But when his wheat was bought for Minneapolis or St. Louis or the Chicago export market, he had no recourse except to take the price that was fixed by conditions far beyond his control or that of his neighbors.

In view of these facts, we find today two radically different opinions as to whether or not anything can be done through governmental action. One view holds that it is best to allow natural law to work its way, and to leave the farmer to struggle on till he finds his place in the economic world that, except for him, is shaped by the forces of so-called big business. The opposing school of thought holds that agriculture needs government support in order that the farmer may not be destroyed in his struggle against adversity.

Those who admit the desirability of governmental relief may again be divided into two schools of thought. One set of leaders are thinking in terms of immediate or emergency relief, and seek improved credit devices for the marketing of staple crop surplusage. Another group are thinking more fundamentally, in terms of some permanent reconstruction. They show the need of organizing business of producing and marketing those farm commodities that the world requires in ever increasing quantities, and that American farmers should find prosperity in supplying.

The advocates of "Farm Relief," so-called, have before them facts of the kind that Dr. Taylor and other speakers will present in this afternoon's session of the Academy. Our own Government, as a part of its program for the salvation of Europe, from 1917 until 1920, practically compelled the American producers of staple crops to intensify and expand their production of exportable staples, regardless of what might be the consequences of a profound disturbance of the normal balance. The reactions that brought widespread bank-

ruptcy to cotton farmers, then to cattlemen and banks in the Farther West, and later on to many thousands of farmers and hundreds of banks in the wheat and corn belts, were directly due to policies for which these interests were in no manner responsible. The Government at Washington had invited colossal disaster by its failure to consider the economic welfare of the American people as solicitously as it was conserving that of the people of Europe. It was not a theory, but rather, it was a desperate condition that confronted the producers of standard farm commodities.

Naturally enough, when the authorities at Washington realized the plight of these interests, various measures were taken to provide better credit facilities. These were desirable in so far as they were applicable to the situation. There was, however, a series of regional crises that did not so much call for further opportunities to borrow money as they required price conditions which might make it possible to come out from under the burden of accumulated debts, and to continue the business of farming. When prices are favorable, credit is easily arranged.

With all the prosperity that the country as a whole is enjoying, the farmers in 1926 have fared badly. Not only are they less prosperous than those engaged in other kinds of economic effort, but also their rewards, for their labor and the use of their capital, come far short of those that they were accustomed to enjoy before the Great War. Congressman Dickinson, of Iowa, who is to speak this afternoon, represents those who hold to the view that Congress must help the farmers to help themselves by providing some method for the marketing of staple crops that will save agriculture from the deadly harm of violently changing prices.

It is not sufficiently well understood how great, even under normal economic conditions, are the hazards that beset the farmer in the production of these necessary commodities. Weather, for example, is quite beyond the farmer's control, yet it affects crop production by exceedingly wide margins of variation. Thus, in 1926, cotton sells for half of the price received in 1925, mainly because of weather conditions that increased the yield, although last year's good prices had stimulated some increase of acreage. Winter wheat in 1926

was almost twice as prolific a crop as in 1925, because of favorable weather. Such hazards of farming, due to conditions of heat and cold, drought and moisture, and other things beyond control, must in the main be assumed by the individual farmer, although their harsh effects may be mitigated by policies of a kind that bring together farmers for cooperative purposes in large associations, and by insurance methods that may yet be greatly improved.

Agriculture is a national interest, and it is fundamental. Farming itself is (1) a mode of life, (2) a practical business, and (3) an admirable profession in which scientific knowledge and engineering progress of all kinds may be utilized. The farmers are not asking to be coddled or subsidized. In their status as country dwellers, they should be put upon the same basis as regards schools, roads, and other common services as are people in the cities. In their economic affairs they should be helped to find the best ways to equalize supply and demand, to standardize regional crops, and to find their markets through large and well organized cooperative associations that can minimize the exasperating price fluctuations that are now so damaging to the individual farmer. The problems in detail that relate to the future of American agriculture are exceedingly difficult, but undoubtedly they can be solved. It is essential for the well-being of the country that its great landed domain be wisely used, and that it shall continue to be inhabited by people who till the soil with intelligence, and who live in their rural communities with dignity and with satisfaction.

Doubtless much genuine effort has been made by the national Government since 1921 to give agriculture a support that would help it back to its normal place as an economic interest. But certain steps are yet to be taken in order that the program already entered upon may have the full effect that is conceded to be unattained as yet.

So much attention has been fixed upon national policy that we are in danger of losing sight of the more immediate and intimate responsibilities of the states themselves. For more than a hundred years we have encouraged diversified manufactures through protective tariffs, and the farmers have been taught that their welfare lay in the creation of a great con-

suming home market. The further relationship of the tariff to our agricultural prosperity is yet to be studied impartially without regard to partisan tendencies. As for the states, it is their business to provide for the educational welfare of their own citizens in every county, township, and school district. It is their business, looking to the future, to see that hillsides are reforested, that roads are built, and that farm life is maintained through the development of a standardized medical health service in every locality.

An intelligent state government will recognize the fact that the fertility of the soil and its proper use in agriculture are matters of vital public concern. A wise agricultural policy in many of our states might have prevented the ruin of millions of acres of land by erosion, following the continued abuse of a one-crop system. Several Southern states are at this very moment seriously considering measures for the arbitrary reduction of cotton acreage, and for the conservation of soils by crop rotation and other recognized methods. The interest of the state, looking to future generations, is far more important than that of the private owner of land. Private ownership is desirable, but it must be subject to the fundamental rule that the domain of the state is to be used for the general welfare.

AGRICULTURE AND THE TARIFF

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I.

IF we are to understand the position which the great farm groups particularly in the North Central, Mid-Western and Western States are taking on the tariff, it is necessary to take into account some other policies of government which have played a determining part in the development of the present condition of agriculture.

Our national program since the Civil War has aimed to expand agriculture without any thought of the relation between crop output and domestic market requirements. The foreign market was ready to take what we could spare, partly because the United States was a debtor country. Foreign capital invested here made exports necessary. It was our policy to get our land resources into private hands for productive purposes as fast as possible. Railroads were subsidized to develop new empires. States competed with states for settlers. Hundreds of millions of dollars were thrown into reclamation projects.

This policy was suited to the United States as a debtor nation. The reversal of the credit balance growing out of the war turned the situation precisely around. We went into the war with our agricultural plant expanded beyond home needs, and for the Allies this was fortunate. We were able to supply the food, but in doing so the country demanded from the farmer that he enlarge his ordinary peace-time activities to the limit. No effective program was ever worked out to save agriculture from the full force of the shock when war demand stopped.

Deflation followed inflation and farm expansion, all induced by government policies, and left the producers of the great primary crops in a post-war position of inequality. In terms of other goods and services, farm crops have sold at radically less than before the war. In the period of 1910 to 1920 farm indebtedness trebled, and most of the debt was as-

sumed when the dollar was cheap. Both these factors tinge the agricultural outlook on the tariff. Bringing the cost of labor, commodities and services down by attacking the tariff, the Transportation Act, hours-of-labor laws, the immigration exclusion act, and other government protective devices might restore equality in exchange, but farmers want to pay their debts with crops as big in dollar value as possible. Reducing the tariff and opening the gates to foreign labor will not accomplish that.

II.

The protective tariff is only part of our national protective system that has grown since the day of Alexander Hamilton but at no time so rapidly nor in so many new directions as during the past decade. This system of governmental institutions and sanctions limits or annuls competition and affects the distribution of wealth in the United States to the advantage of some groups at the expense of others.

Agricultural interests in relation to our protective system are as radically divided as the interests of the most diverse groups. Producers of protected specialties no doubt favor continuing the tariff. Producers of other crops see it as a device that raises their costs and does them little good. Probably Northern farmers will continue to support it in general, but only in case equally effective devices are created for them. This does not mean that the farmers are interested in preserving the tariff *status quo*, or that they approve excessive protection in any line.

Thus the tariff is viewed from two standpoints—as part of this protective system that imposes added costs on industries not likewise protected, and as part of a mechanism that may be employed to offset the inequality it has helped to create.

Agriculture as a whole is a heavy loser under our protective system, both directly and indirectly. The tariff raises the money costs of every farmer in the United States. On the other side of the ledger, it confers a direct cash benefit on a few—dairymen, sheepmen and producers of flax, sugar, poultry and citrous fruits. Occasionally it has been of limited help to growers of corn and wheat, but as a rule it is either of comparatively little direct benefit, or of none at all, to the producer of wheat, cotton, pork, rye, corn and oats.

Opinions vary as to the extent to which the tariff directly aids farmers. The divergence is great enough to cast doubt on the utility of the statistical method in attempting to arrive at the truth among them. Wheat may be selected for a simple illustration. A member from Kansas, now about to retire from the lower House of Congress, is widely quoted as saying that the tariff has afforded an average protection of twenty-three cents per bushel of wheat in the United States, for the past five years. A staff contributor to a leading national farm monthly in one of two recent articles on "The Farmer and the Tariff" declared that "the Minnesota and Dakota wheat grower . . . commonly figures the benefit [of the tariff on wheat] at twenty cents a bushel or better."

As far as my own observation goes, the Minnesota and Dakota wheat growers do not figure any such degree of benefit from the tariff. In the year 1925, the United States' total wheat crop was less by more than one hundred million bushels than in any other year since the war. There was consequently the smallest exportable surplus in a decade, and the tariff might be expected to reach its greatest effect on domestic price. Therefore, I was interested in comparing the figures realized at their terminal markets by the Canadian and the American States wheat associations for the 1925 crop. The Canadian settlement was for an average price of \$1.45 a bushel for Number One Northern wheat at Fort William after deducting terminal costs and general expenses of the pool. Three of our spring-wheat state associations reported average terminal prices at Minneapolis for Number One Dark Northern wheat ranging from \$1.44 to \$1.51 a bushel. In other words, the settlement of the 1925 pools in the United States and Canada was at substantially the same terminal price for top quality spring wheat. In computing the net returns to the spring wheat farmers there is a sharp freight differential to be considered. For example, the Montana or western North Dakota wheat grower pays eight to ten cents a bushel more freight to his terminal markets than his neighbor to the north pays for the equally long haul to his market—more than enough, apparently, to offset any margin that may have existed on the average through the marketing season for the 1925 wheat crop.

The same variety of opinion appears when considering the

indirect gains or losses attributable to our tariff policy. The staff correspondent referred to above sums up his conclusions in the statement that the American farmers lag behind in direct tariff gains, but are better off by indirect benefits. Yet in striking his balance he fails entirely to consider the effect of our national policy of restricting imports on the demand—hence the price—for our farm-crop surpluses sold abroad—and this is only one of the omissions that creep in to cast doubt on the accuracy of his and other statistical treatments of the tariff and agriculture.

Growers of fruit and vegetables and producers of dairy and poultry products reap most of the indirect benefits of our protective system. Demand for what they have to sell is stimulated by sustained wages of labor. On the other hand producers of staple crops like wheat and cotton are not assisted in like degree. Demand for the plain foodstuffs and articles may slow down, not speed up, when the family budget permits the housewife to select from a wide variety of substitutes. The per capita consumption of wheat in the United States, for example, has fallen off twenty-five per cent in the last quarter-century.

We have a surplus for export of our most important crops. Their domestic price is closely related to foreign price. The tariff increases the difficulty of exchanging the exports for products of the labor of other lands, thus exacting an indirect but none the less real penalty.

III.

Notwithstanding agriculture's adverse position under the tariff as a whole, the tendency among farmers is to prefer protection for themselves to withdrawal of protection from others. There are several reasons why this is so. There is, of course, the influence of producers of effectively protected crops who, though outnumbered, are active. But above all else farmers want higher prices for themselves rather than lower prices for the rest in order that they may more easily pay their debts. It is not only the inequality between farm prices and other costs that troubles the farmers; it is the fact that their debts amounting to some twelve billions of dollars largely contracted when the dollar was cheap must now be paid when the dollar

is not so cheap in terms of all commodities and is still less cheap in terms of the products of the farm.

When farm prices fell out of line after the war, the tariff was the first remedy applied, along with the equally orthodox one of additional and unusual loans. The Emergency Tariff of 1920 and the Fordney-McCumber Tariff of 1922 gave prominent consideration to agriculture, both in duties applied to products of the farm, and in providing for admission, duty-free, of many articles that farmers buy. Friends of the tariff attribute to these exemptions more value to the farmer than they actually possess. For example, the tariff enters into the cost of every farm implement sold in this country, though the article itself may be on the free list. This added cost comes from the tariff on steel, which also enters into the cost of the freight; from increased labor costs, if we accept the protectionist argument that the tariff makes high wages. But leaving that, the tariff was powerless to help the producers of our basic crops, who were the ones that most needed helping. As has already been shown, our staples like cotton, wheat and pork are normally produced in excess of the home demand. We might multiply the duty rates on them without helping the producers.

The impotence of the tariff unaided to bring about price recovery of surplus crops is reflected in the past and present purchasing power of agricultural products compared with non-agricultural commodities. The Bureau of Agricultural Economics index of purchasing power last published gave the average exchange value of thirty principal crops in terms of non-agricultural commodities, as eighty-three per cent of pre-war—the lowest point in twenty-six months and a drop of ten points in a year.

IV.

The agricultural surplus problem arises out of our past policies of expansion, the great number and wide distribution of producers of major crops which make collective action difficult, and the impossibility of controlling volume of production by regulating acreages.

As an illustration of the last factor, it is pointed out that whereas corn farmers planted 101,699,000 acres of corn in

1920 and harvested 3,208,584,000 bushels, in 1924 the acreage was practically the same—101,076,000 acres—but the harvested crop was only 2,312,745,000 bushels. The range in production which no human agency could have foreseen or prevented was 896,839,000 bushels with no marked acreage variation. Wheat farmers planted approximately fifty-two millions acres of wheat, both in 1924 and 1925. The crop harvested in 1925 was almost two million bushels smaller than the crop in 1924. On the average acreage planted to cotton during the past five years, including 1925 (but not including the enormous crop of 1926), the range between the years of high and low production amounts to two and a half million bales. These figures illustrate why farmers cannot adjust their supply to home demand in the production stage as a closely integrated industry can do. If they could they might make the most of their markets in prices that reflect economically obtainable advantages, including those made possible by an effective tariff.

If producers through cooperative action could control the flow of widely grown commodities to market and thus adjust supply to demand in the stage of distribution, they might be able to prevent surpluses from breaking their markets below cost of production, or from determining the domestic price by foreign sales. But there is now enough experience to show the sharp limits to what can be done through voluntary co-operation. To withhold from the market temporarily unrequired supplies, or to divert them to outside markets, is likely to involve costs and losses on the portion diverted or withheld. As long as these costs and losses must be borne only by those who voluntarily elect to pay them, while the benefits are shared equally with those who do not, the cooperative association that attempts this policy is doomed to fail in it. This is true notwithstanding that such cooperative action may have resulted in stabilizing prices, and in improving those secured for that portion of the crop sold in the domestic market.

The demand that some effective method be found for handling unavoidable surpluses came from all over the West after the war. The boll weevil was taking care of cotton then, but in the West and Mid-West farmers asked that the tariff be made effective for producers of our surplus crops. This

idea found form in the surplus control bill in the 68th Congress, relating to six leading cash crops of which our domestic production normally exceeds home requirements. It proposed a way to withhold or divert surpluses whenever the domestic price of one of the designated commodities dropped below a point equivalent to its average purchasing power for the five years immediately before the war. It proposed to meet the costs through an "equalization fee" collected on each unit of the commodity so handled, as it moved in trade.

Before the 69th Congress many forces had brought modification in the plan considered in 1924. The "ratio price" feature had been persistently branded as "price-fixing." The farm organizations proposed as an alternative that surpluses be handled in such a way as to make existing tariffs effective in the domestic price. In the meantime interest had grown among the commodity cooperatives of the pool type. Their influence resulted in further modifications until the bill before the 69th Congress became largely a cooperative marketing measure with no government corporation or agency to carry on marketing functions, which were to be handled by agencies set up by the farmers themselves. The essential feature in both bills was the universal distribution of cost of operation among all producers of the benefited commodity. The plan was further modified by the counsel of the cotton cooperative associations who asked that the same principle be applied to them, i. e., to charge the cotton industry as a whole with the task and cost of its own stabilization.

V.

Most of the negative arguments developed during the past three years in which this legislation has been considered apply equally against protective devices now in use in the United States for other groups and in other countries for agriculture. The field is too broad for this paper, but an excellent illustration is afforded by two recent statements of the Secretary of Agriculture and of the Secretary of the Treasury.

In an article recently published in the most widely circulated American weekly, the Secretary of Agriculture said:

I have stood firmly in the belief that the basic surplus problem is not confined to any one section, and I have *consistently opposed all*

legislation which would favor one class of farmers as against the interests of other groups of producers. Farmers of the East are heavy buyers of Western grain. The South is a heavy buyer of Northern pork products, grain and feed stuffs. The North is the buyer of cotton products. Even within the same region the grain growers' finished product may be the livestock feeders' raw material, and so on.

It is interesting thus to hear no less a spokesman for our protective government than the Secretary of Agriculture argue that it is unsound to improve the price of wheat for example, because, he says, farmers who grow wheat use a great deal of it on the farm, and those who do not grow it, eat it. If the Secretary's logic is good when he opposes making the tariff effective for the wheat farmer, and helping the cotton farmer secure a better price through control of supply, it makes an overwhelming case for removal of the tariff on wool and sugar. It applies equally to our steel tariff. One suspects from this declaration that the Secretary is in the way of becoming a free trader.

The tariff of thirty-one cents per pound on wool, for example, helps the relatively few wool growers among our farmers but it takes from other farmers who do not grow wool a greater sum. It may be reasonably inferred from his utterance that the Secretary of Agriculture favors the removal of the tariff on wool. The case against the sugar tariff is even stronger. Since producers of wool and sugar are likewise consumers of their own products, it is strange that they have remained ignorant of this principle now advanced by the agricultural spokesman of a high tariff administration. Certainly, if he is right in his position, then the wheat, corn and cotton farmers need sadly to be educated. They have been demanding better prices which the Secretary now points out would not be good for them.

The Secretary of the Treasury stated the grounds of his opposition in a much quoted letter last June of which perhaps the outstanding feature was the fear he expressed that, "European labor could purchase American products at a lower price and could live more cheaply than American labor. Foreign industrial costs would be lowered and the foreign competitor assisted in underselling American products abroad and in our home market."

This, of course, is precisely what the protective tariff does. It operates not only to increase living costs for American labor but it raises both living and production costs of American agriculture. Whatever may have been the basis of former tariff laws, the Act of 1922 certainly embodies the principle that duties should be sufficient to compensate American producers for their higher costs compared with producers in the "principal foreign competing country." If they do so, then obviously domestic prices for the protected commodity will range above foreign prices, with all the consequences which the Secretary of the Treasury fears.

Therefore, if any cause makes the tariff effective for the producers of the basic crops of agriculture, the effect on industrial costs in this country will be identical with the effect of the farmers' proposal. It is difficult to escape from the conclusion that the Secretary's first desire is to enable our industrial producers to compete with foreign manufacturers for export markets, even if this has to be made possible through saddling the burden of cheap foodstuffs and raw materials definitely upon the farmers.

Some well-informed men contend that because we are dropping behind in farm acreage and production compared with population, farmers are approaching a time when they will be chief beneficiaries of the tariff. It seems reasonably clear, however, that if the forces who want cheap food stuffs and raw materials are now successful in defeating the farmer's demand that the tariff or some other protective device be made to work for them they would be equally successful in repealing agricultural tariffs, should they ever become operative.

In conclusion, the position of those elements in our farm population that have been most active in the so-called "farm relief" movement may be expressed substantially as follows. They know: (1) that it will help them more to raise their prices than to bring other prices and wages down to their level; and (2) that even if all tariffs were removed there would still be the problem of price instability that can only be met by surplus control. Therefore, from a government committed to the policy of effective aid for favored industries, they are asking for some mechanism equally effective for agriculture.

AGRICULTURE AND THE TARIFF

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THE farmers of the United States sustained a loss of about \$20,000,000,000 of their capital during the six years from January 1, 1920, to January 1, 1926. This was 25% of their capital account at the earlier date. The value of farm land for the United States as a whole declined 31% between January 1, 1920, and January 1, 1925.

This shrinkage in capital value is due to shrinkage in income. During the general depression following 1919 the per-capita current income of the farm population of the United States as a whole dropped 49% from 1919 to 1921, while the per-capita income of non-farmers dropped only 3%. In Iowa the shrinkage in income during this period was 75% for the farm population and 5½% for the non-farm population, while in Vermont the per-capita income of the farm population increased 14% and that of the non-farm population declined 3%. In 1919 the farm population, representing about 30% of the total population, received 17.7% of the current income of the nation; in 1920 this dropped to 13.4%; in 1921 to 9.9%. When the capital losses are subtracted from the national income and from each group receiving national income, the farmers' share of the net income for 1921 is reduced to 5.9%. The per-capita current income of the farm population has improved in dollars but the income of non-agricultural groups has improved faster, so that the share of the farmers was probably no higher in 1925 than in 1921.

While the city industries quickly recovered, the depression in agriculture has continued. The gross income of agriculture declined from \$17,677,000,000 to \$13,031,000,000 between 1919 and 1925, or 26.6%. The net earnings of farmers declined to a greater extent than the gross income. At the end of 1925, six years after the beginning of the agricultural de-

pression, from which there had been considerable recovery, the income per capita of the farm population, received as pay for labor and management, was 28% below what it was at the end of 1919, whereas the per-capita income of factory workers rose 3% above the 1919 figure.

This disparity in farm and city income is due to the fact that the ratio between the prices of farm products and city products has been unfavorable to farmers since 1919. In December, 1920, the purchasing power of farm products when expended for non-farm products fell to 67% of the pre-war figure. Another low point was reached in August, 1922, when the purchasing power went down to 66. There was a gradual recovery until August, 1925, when the figure rose to 93; but since then the position of agriculture has grown worse. In August, 1926, the purchasing power of farm products was only 83% of the pre-war level and it is still on the downward trend. This means that while a unit of farm products will purchase only 83% as much of city products as before the war, a unit of city products will purchase 121% as much of farm products as before the war. Once this disparity has been established, city consumers cease to spend the accustomed proportions of their incomes for the staple farm products and are in a position to spend increasing proportions for better homes, entertainment, food delicacies and finer clothing—all of which make increased demands on the city trades and industries.

Much of the damage to the farmer can be credited to the direct action of the government. The financial policy of inflation and deflation threw all sense of permanent values into confusion. Had inflation and deflation taken place at the same rate in all industries, the damage to agriculture would have been much less than it has been. The power to resist deflation was much greater in non-farming occupations than in farming. This was due in part to the fact that farmers are not so well organized, and in part to governmental action which favored other groups.

The war activity of agriculture was of the same kind as that of peace times. The expansion of agriculture was brought about during the war by appeals to patriotism and by some fulfilled and some unfulfilled promises to sustain the price

levels. This expansion having taken place, the reduction came slowly and brought with it enormous losses. The farmer's only chance of salvaging anything out of his life-long savings was in hanging on with the hope there would be a turn for the better. Associated with these conditions, we have had the grotesque circumstance that some of those who occupy the posts of statesmen in this country have feared to give the farmers any relief lest it stimulate them to increase production. Certainly until the annual losses are wiped out there could be no danger of expansion. No more has been asked than that old price ratios be in a measure restored. These ratios were not over-stimulating before the war when the financial condition of the farmer was healthy; the danger of expansion at this time when agriculture has been weakened by a long sickness and when other occupations are far more profitable is certainly much less.

In the main the special war activities of the manufacturing industries were different from their peace-time activities. At the close of the war, instead of a surplus of equipment and products of the kinds demanded in peace times, there was a shortage. The war industries were junked and the losses absorbed by the government. The city industries have prospered, with the exception of the relatively slight depression in 1921, while agriculture has continued to be depressed.

While the government could see no way to reduce the sufferings of farmers, the city industries were not only protected from the losses due to the junking of war industries, but a new tariff law was carefully prepared to guarantee to the manufacturing industries even higher tariff rates than they had enjoyed before the war. The sheep industry is the only important exception to the general rule. The sheep farmers were the first to suffer at the close of the war. In 1920 the sheep farmers and the bankers associated with them were at the point of bankruptcy. A change in the tariff restored their prosperity.

The tariff, reenforced by the immigration law, constitutes the major reason for maintaining the disparity between farm incomes and city incomes. Instead of an increase in protection to industry following the war, there should have been a reduction, because the position of the basic unprotected in-

dustry, agriculture, was weakened by overexpansion and by a reduced buying power in Europe. This greatly reduced the power of agriculture to compete with the protected industries for labor and capital.

Since the natural conditions for carrying on the protected manufacturing industries are as favorable in this country as abroad, and since protection has been needed in the past because natural conditions made certain other industries, primarily agriculture, even more profitable than manufactures, the original and only true basis of a protective tariff has been to enable the infant manufacturing industries to compete with the more favored industries in the home market for labor and capital. This competition reduced, the tariff should be reduced. To raise the tariff on manufactures under these conditions was at least a colossal blunder. One economist recently said the passing of the Fordney-McCumber Tariff Law was a crime. The wrong action on the tariff at that time is the major reason for the present disparity between farm and city incomes.

Thus while agriculture has suffered from the cumulative effects of the war and the activities of the government incident thereto, with no help, excepting increased credit facilities which have had the effect of increasing the indebtedness of farmers, many of the city industries received reimbursements of losses due to closing down of war activities, and have benefited by a protective tariff that elevates the prices of city products at the expense of agriculture.

In general the first years of agricultural depressions do not damage city industries. They damage those city industries which manufacture for the farm trade solely, but other industries gain by the abundant supply of cheap food and raw material, the very cheapness of which is the occasion of the agricultural depression. It is only when this depression in agriculture has wrought its full effects that city industries suffer from the agricultural depression by paying high prices for food and raw material due to the reduction in the amount or the efficiency of farming.

It takes a long time to stop agricultural production by means of depressed prices. But while the process is slow it is very destructive. It leads to cut-throat competition, because of

the large permanent investment in proportion to the annual outlay, and because of the fact that three-fourths of the work on farms is performed by farmers and their families.

Both the land area in farms and the farm population are beginning to shrink. Between January 1, 1920, and January 1, 1925, the area in farms declined nearly 31,000,000 acres, and the farm population was reduced between January 1, 1925, and January 1, 1926, by more than 700,000, while the total population increased about 8,500,000.

This shrinkage will go on (if farmers are forced to it) until price ratios are reestablished on a basis which makes farming as profitable as other occupations regardless of government handicaps, or until the more intelligent and more ambitious of the rural population have gotten out of agriculture into other occupations, leaving behind that peasantry which already constitutes an unfortunately large percentage of our farm population. Peasantry is a state of mind. It represents an inferiority complex. Hope and ambition abating and efficiency declining, the peasant takes what he can get, multiplies his kind and furnishes the foundation of a decadent nation.

No rational citizen wants the present city prosperity at this cost. True it has been said by those in high places that the consumers have the votes and will vote for cheap food. Cheap food today will mean dear food tomorrow. Statesmanship can help consumers to think of tomorrow as well as today. The great effort of the late Secretary of Agriculture Henry C. Wallace was to help business men and the high officials of the government see the truth regarding agriculture, believing that there was yet left or would arise enough statesmanship in this land of ours to save us from the disasters which lie ahead. Apparently his words fell on deaf ears, uncomprehending minds, or were met by hardened hearts.

Before taking up the tariff in its relation to this problem it will be well to review the remedies which do not involve the tariff.

The reduction of the land area by governmental action which would help farmers get off marginal and submarginal lands and find work in other occupations has been suggested by Professor Richard T. Ely. The methods of making this plan effective have not been worked out in detail but in the mean-

time the United States Government appropriated \$70,000,000 in 1926 for the expansion of the agricultural area through specific reclamation projects.

It has been suggested that we adjust agricultural production to the needs of our own country, producing at home so far as may be the agricultural products which we import from abroad, and reducing our production of staple products to the needs of our own country. Calculations show that in order to reduce our staple products to the point where year in and year out we would have just enough for the home demand it would be necessary to reduce the present crop acreage of the United States more than 40,000,000 acres after devoting as much area as would be needed to produce those commodities, now imported, which it is physically possible to produce in this country. The agricultural products we import require much labor and little land. We could produce our own sugar and our own silk, but at a cost which would mean a great loss to the nation.

It has been suggested also that the government should take a hand in developing facilities which would aid the surplus farm population to find positions in other occupations. The efforts being made by farmers or members of their families to change from country to city occupations have not been very successful. True the movement has been large, but more than one-half of those who leave the country for the city occupations fail to find a foothold and drift back. This is a sorting process, but an expensive one.

While the total writing-off of rural wealth would reach staggering figures, if enough land could be withdrawn from agriculture and enough people taken out of agriculture and placed in other occupations, the price ratios would be restored and the current incomes of farmers would be on a parity with those in other occupations. This would reduce our farming far below the amount carried on before the war. This is what is slowly coming to pass at a human cost which is blighting the rural population in such a manner as to limit seriously the possibilities of our national life.

After all, why is all this reduction of agriculture needed? Is it needed in order that the United States can best serve mankind in this after-war period? By no means! The agriculture of the United States should be maintained and improved.

This reduction is forced upon farmers by the disadvantage of selling on a world market and buying on a too highly protected home market. Were it not for excessively high protective tariffs on imports, the purchasing power of farm products would not be down to 83% of the pre-war figures. There are other factors, but the tariff is of major importance in determining the present situation.

It has been recognized that the tariff may be attacked by two methods, either of which would give relief to farmers: first by reducing the tariff; second by making it effective for agriculture. The attack has been largely on the latter line during the present administration—in part because it was thought there was no hope that the administration would favor tariff reduction. It has been demonstrated that the administration was equally against making the tariff effective for agriculture.

The present tariff is too high, much higher than is needed for protective purposes. The original purpose of a protective tariff was to raise the home market price of a commodity which without protection would be less profitable than some unprotected commodity. But our present tariff rates are much higher than the maintenance of our city industries requires.

Without protection our population would turn its energies to those occupations which pay best under conditions of world competition. Protection fixes the domestic prices of certain products somewhat above the world price level in order to enable that industry to compete successfully with other domestic industries for the use of labor and capital. This, of course, always places the burden of higher costs upon the unprotected industries. It may be a justified national policy when used to develop infant industries which, once established, will be able to stand on their own merits; but it is never justified when the rates are so high as to force unprotected industries out of business. The true test of how much our present tariff can be reduced without destroying the industries is found in the answer to the question how much can the prices of protected goods be lowered before it will become more profitable to produce unprotected goods. If the tariff on protected goods could be reduced fifty per cent without reducing the profits to the point where an unprotected product will pay better, then

the present tariffs are twice as high as they should be. The tariff that is justified on the ground of diversified economic life and a home market has fulfilled its purpose when it makes protected industries which require price-fixing to sustain them as profitable as the basic industries which are not protected.

This amount of tariff reduction would in no way reduce the total well-being of the people of the United States, for we have great natural advantages that provide the basis for a higher standard of life than is possible in most foreign countries. The immigration law protects us in the enjoyment of these resources. On the other hand, a reduction of tariffs from the present high levels down to the minimum essential to maintain the protected industries would go far toward reestablishing pre-war price ratios and a more equitable distribution of wealth between country and city in the United States. And this in turn would lay the foundation for a permanent prosperity based upon efficiency in production and justice in distribution. Without justice in distribution efficiency will fail.

But, it will be said, this would mean dragging the wages and profits of the protected, that is, price-fixed, industries down to the level of the basic unprotected industries. Not exactly. It would mean bringing them together at a median point. Indeed it would lower some and raise others, and why not? The present system is robbing the farmers of the comforts of life and of their accumulated savings in order that those in the protected industries may enjoy an unsurpassed indulgence in the comforts and luxuries of life in this after-war period when most of the world is sick.

How obvious it should be to the open-minded student or to the statesman that protection which makes protected industries far more profitable than the basic unprotected industries is overreaching itself and lending itself to an unjust distribution of wealth which is not only economically unsound but fraught with serious danger to our national life! It is this unbalancing of the distribution of wealth made possible by the tariff which has led to the slogan "Protection for All or Protection for None".

Tariff reform is a crying need of the day. The tariff can be reformed by reducing the rates to the point of balanced relative profits or by making adequate tariff rates effective for agriculture.

The real problem is that of the proper distribution of wealth as between the country and the city. It may be said: The present inequitable distribution is temporary; in the long run agriculture will come back through readjustments of population. In a large measure this is true, but in the meantime life is passing and millions of patriotic citizens are losing their life opportunities. Furthermore, the blight upon agriculture will last for generations to come and may become permanent through the elimination of the best blood from the country.

Tariff reductions should be carried to the point of reestablishing the pre-war ratios without undermining our industries by making them less able to compete for labor and capital than the basic unprotected industry. This should become a definite program of action. It is here recommended, therefore, that the tariff rates be reduced ten per cent each year for five years or until the pre-war price ratios are reestablished. The amount of the tariff reduction should be distributed over the various commodities in such a manner as to secure the maximum benefit from an average annual ten per cent reduction. This would be very conservative action. The alternative to tariff reduction is making the tariff effective for agriculture to the point of reestablishing the pre-war price ratios for farm and city products. Those who proclaim either one of these proposals unsound must by the same token admit the soundness of the other.

AGRICULTURE AND THE TARIFF

HON. LESTER J. DICKINSON

Member of Congress, 10th District, Iowa

WHEN the first railroad was being built across Iowa, the Board of Directors met at the terminal point of the western section of the road and after due discussion concluded that they would spend no more money trying to extend that railroad across the state, because white men would never be able to live there anyway. But they have been living there. Last year my district, fourteen counties in Iowa, raised 26,000,000 more bushels of corn than the entire state of Pennsylvania—and Pennsylvania considers itself quite an agricultural state.

The difference between the problem in Iowa and the problem in the East is the fact that our eggs are largely in one basket, and when agricultural values decrease by seventy-five per cent, as Dr. Taylor explained, you can see what a chaotic condition it leaves us in economically.

I have been one of those advocates of the proposition that the tariff can be made effective and protective of agriculture. I believe it can be done, but it can be done only by national legislation. I am opposed to the government's being in business, and I have never advocated any subsidy for agriculture out of the public treasury. The reason agriculture can not be put fairly before the people of the East is the fact that ninety-five per cent of all Eastern comment on the demands of the West is based on the false assumption that the West is asking the government to do something for it out of the public treasury.

In other words, we have not been able to get our program fairly discussed in many localities and particularly in the Eastern press. Not that I blame the press. The Easterner, being unable in many cases fully to comprehend all of the details of the problem, is liable to take catchy sentences from the comment that he gets, and base his conclusions and arguments on them.

I was very much amused last night in picking up a little prospectus headed "Importing Foreign Cement and exporting American Prosperity," published by a New York organization, and edited by H. Struckman, President of the International Cement Corporation. He gives as his reason for having it specified in construction contracts that American-made cement is to be used, that increasing the business of the cement industry helps the coal industry, the sack industry and all of the other industries whose products go into the manufacturing of cement. I can take every argument in that pamphlet and apply it to agriculture, with increased emphasis, and yet many people in the East will not take a pamphlet on agriculture and read it through, while they will read one on cement. Why? Because cement is a protected industry that has been able to canalize its trade and in that way establish itself, while the farmer is an individual living alone on his farm, unable to make his cause heard.

A great many people have referred to Iowa as the hotbed of radicalism. Now, let me suggest that it is not only in Iowa that the farmers of this country are depressed. If there is any criterion as to the depression of farm interests in this country, it ought to be found in the reports of the Federal Land Bank organization with its twelve districts in the United States. When they foreclose a mortgage and take over a debtor's real estate, under the law they are compelled to charge off the entire item within five years after it is acquired by foreclosure, or charge off a percentage annually. On September 30, 1926, this government organization made its usual report. The percentage of land values charged off in relation to the total amount of loans ought to be a fair criterion as to the economic status of agriculture in those particular districts. I find that the highest percentage is for Spokane, Washington. The next highest is Berkeley, California; next is Columbia, South Carolina; next is Wichita, Kansas; and then comes Springfield, Massachusetts. The percentage in the Springfield, Massachusetts, district, which includes the state of New York, is double the amount in the Omaha district, which includes the state of Iowa where most of the howling is coming from, according to the popular belief of the press.

The following personal letter from Ohio reflects the feeling and condition in that state:

Senator Fess has gone so far as to say there is no farm problem in Ohio, and to indicate that the farmers here are prosperous. Nothing could be farther from the truth, as you well know without my telling you. I wish to inform you that the grain farmers of Ohio are all in the same boat with the farmers of Iowa.

The condition in north-central New York is reflected by the following quotation from a letter recently received:

We are living in a once prosperous and progressive farming section, and now not more than one-fourth of the farms are actually being farmed. About one-half are abandoned; of the remainder, some are still inhabited but the people are depending upon outside employment for a livelihood, while others are just living up the land which will soon be added to the abandoned farms. Very few young men remain on the farms and a very few more years will see most of the men now operating farms in this vicinity in their graves or past working days.

In other words, every claim of the people of Iowa with reference to discrimination against agriculture is also true of agriculture in New England, the Southern states, the Western states, the Pacific states, and the Mississippi Valley. The only difference is that in Iowa agriculture is probably ninety per cent of our economic turnover, while in New England it probably is not three per cent of the turnover, and therefore receives little attention.

Many people ascribe the present difficulties of the farmers to this or that or the other cause. They refuse to admit that it is a handicap that has been imposed upon the people following this particular industry. They say that we have passed a tariff law giving effective protection for agriculture on all of the schedules that were asked for. But why not go farther and admit that whenever you put a tariff on a commodity of which you produce a surplus to be sold in the world's market, the tariff is ineffective? They stop before they reach the real discussion of the tariff so far as the principal, primary commodities are concerned. They tell you about protecting lemons and citrous fruits, but remember when you sit down to a square meal that five or six staple food commodities entering into about ninety per cent of every meal you ever ordered are not protected. That is the reason for the demand coming from the Middle West, that the protective tariff system be made effective on all farm commodities.

I have been an advocate of the protective tariff system. I believe in it. Since the war practically all countries have adopted either the protective system or something similar. Protection is taking the form of export controls in the case of British rubber, Brazilian coffee, Japanese silk, and German potash. Yet America has been absolutely inactive here. We have been denied the privilege of testing out legislation for to protect our primary export commodities which, in my judgment, have more to do fundamentally with the future of this country than any other industry.

There are those who say it is all the farmer's fault, and that it is within his power to work out his own salvation. Let me suggest a comparison. Take any business there is in New York and run it on the basis of charging off seventy-five per cent of the capital investment within four months' time. That will ruin any business. And yet you are asking the farmers of Iowa to survive under exactly those conditions. I can remember the time when we were offered one dollar and seventy-five cents for corn and within four months' time it was down to twenty-two cents.

Let me give you a typical illustration: I have a friend who has been in the banking business for forty years. He has been dealing with a certain farmer near his town. The farmer raised a family, sent his son to college, and was one of the substantial men of the community; he had a borrowing power at the bank of from four to six thousand dollars. As time went on his loan against his land increased, and in the fall of 1920 he carried fourteen thousand dollars against his quarter-section of land and a current indebtedness at the bank of six thousand dollars. He never knew what it was not to be able to pay his debts when the demand came, but the bank examiner said to the banker, "You have got to get security for this six thousand dollar item." The banker went to the farmer and said, "You have got to give me security." The farmer said, "All I can do is to give you a second mortgage on my farm." The banker took the second mortgage. The farmer at the end of that crop year found that he could not make interest and taxes and living expenses; he tried the second year and the third year, and then he came in and looked down at the floor and said to the banker, "I can't make the grade. You just take this old farm."

Here we have a banker in business forty years; a farmer owner on the same land for many years—the farmer tilling the same land and raising the same crop—the banker dealing with the same individual and the same security—yet the farmer loses his land and the banker gets a frozen asset. The banker, if he gets about thirty of these items, will have a closed bank by reason of frozen assets. We have had over three hundred of them in the state of Iowa within the last three years. That is purely due to lack of stabilization and inadequate returns from farm operations.

That is the very proposition that makes us demand that something be done to try to stabilize the price of farm commodities, and we believe that that can be best done through national legislation of the kind that has already been suggested in Congress.

What is the difference between present and former conditions? I can remember reading the will of Nathaniel Dickinson who lived at Hadley, Massachusetts, my forefather, eleven generations ago. He left so many square acres of land and described it, so many barrels of pork, and that was his will. We were an agricultural people. But times changed. In the days of our fathers, when they wanted flour for the family they put six or eight sacks of wheat into the back end of the old spring wagon and drove down to the miller, whom they knew by name, and negotiated with him as to the toll that he was going to take from their commodity. The farmer at that time had bargaining power with the butcher who bought his live stock for sale across the counter. Why? Because he could say something about how much he should pay for this animal or that animal.

Where has the farmer's bargaining power gone today? He takes his produce down to the station and delivers it there for whatever they say the centralized market happens to consider his commodity is worth that morning. He has no bargaining power.

That is where the trouble lies with the farmer of this country. He has lost his bargaining power. Now how does big business get a bargaining power? By canalizing trade. All over this country branch banking is being advocated. That means stabilizing the banking business of the country by

centralizing it.. If you are selling merchandise in some rural locality, you will find that some day there will be established on the corner opposite you a chain store which will sell for seventy-nine cents the commodity you have been selling for a dollar, and within a given limited time you are going to be out of business.

It is true in flour; it is true in tile and brick; it is true in cement and building materials; it is true in copper with the latest organization of \$460,000,000; and now we have the public utility power concern selling electricity and public service to the New England States, with a capital of \$1,500,000,000, and with headquarters in the City of New York. That is what I mean by canalizing trade and putting it into the control of a few individuals.

Why? Because they want to control the production and the market. Now, I am not objecting to that, but I doubt that it is a good thing for the country as a whole. There was a time when communities grew up around an old banker who was recognized as the stability of the locality, and also the corner storekeeper who was the adviser of the entire town. Now we are going to supplement those fellows with men who are working on a salary for chain banks and chain stores, and so forth, and we destroy the individuality of the locality.

There are enough critics who will say: "All the farmers have to do is to have sense enough to get together and do the same thing big business is doing, and that is to control their commodity and control their output." But start with the millions of farmers engaged in producing the same commodity and try to get them together on such a basis! If they make no more progress in the next hundred years than in the past thirty, toward cooperative control of markets, they will still be selling for what the other fellow offers them when they take their stuff to the market. Therefore, I maintain that if the farmer is to regain his bargaining power it must be done by canalizing the marketing of his commodity, just as they canalize all of these other commodities before they are sold and thereby control the production and also control the marketing.

I believe that can be done by legislation, and not without legislation. It might be done in some commodities that are

produced in restricted areas, but it is not going to be done in the marketing of the major commodities that are absolutely necessary in a program to stabilize agriculture in this country. Therefore, if legislation can be passed that will canalize and in that way stabilize, you will have performed the service, first, of giving the farmer as a producer a bargaining power. Then if you have a surplus that must be marketed abroad, you must also have the machinery for control of the sale of the surplus abroad.

Now, how is that going to be done? In my judgment, it can be done by the creation of a Federal Farm Board as proposed in the legislation that was presented last winter.

If our present marketing machinery of this country is rendering a turnover service for pay, it will survive under this law. If it is running a bucketshop game of speculation in these commodities, it will not survive and ought not to survive. In other words, I believe the proposal would not interfere with the present marketing machinery, because it would require only a small adjustment for that machinery to meet normal fluctuations. But it would eliminate those extreme price curves that are now ruinous to a number of major food commodities produced in this country.

In 1924 it was wheat. In 1925 it was cattle. In 1924 it was hogs. The next year we had all hogs and no corn, and that year it was the corn man. The next year and this year it is the cotton man. The production of commodities cannot be changed fast enough to enable a farmer to stay in the commodity he can produce at a profit. He cannot guess often enough.

Some economists who have never traveled over the prairies of the West say, "Well, why don't you balance production?" If anyone will send an economist to Iowa who can balance the production of corn and hogs and cattle, I believe I can guarantee to get an appropriation by the state legislature of Iowa to pay him a salary of a million dollars a year in order to stabilize the price of those two commodities.

In my judgment, the remedy involves two principles. First, you must have the necessary governmental machinery to canalize farm products into centralized channels, as big business is doing with the sale of its commodities. That can be

done through a board such as I have suggested, that board designating an agency, which will have the right to collect from the producers the loss and pay them back the gain if there is any.

The second principle is that that agency must have the right to take off from the market a sufficient amount to prevent the market from being depressed by a surplus. That is what we call taking care of the surplus that has to be sold gradually in foreign markets.

The objection is raised that this means dumping the surplus on foreign markets. But it is being sold in the foreign markets right now. Don't you think if you had an agency that had no other purpose in mind except to stabilize price, rather than to sell at a profit, it could sell just as judiciously in foreign markets as private agencies are now doing? I think it could be done, and done better. Foreign purchasers dealing with that agency would know that they were going to be able to get the surplus at a stabilized price into which no excessive profits will enter.

In my judgment, this crisis is not over. The man who goes out into the West and comes back and tells people that the crisis is past, is wrong.

There is one thing more, and that grows out of the discussion of this morning on installment buying. One of the contributing causes of the tribulations in the West is the fact that farmers have had put under their noses every possible inducement to buy additional things, and buy them on the installment plan. Why?

The General Motors Company made excessive profits during the year 1926, and, I regret to say, one of their markets is in Iowa. What are they doing there? They are selling ninety-odd out of a hundred of their machines on the installment plan. The current cash that we need to keep in those localities is being transmitted to the East. In a little while, the locality finds that it has not sufficient cash with which to function, and a bank has to close.

A good banker friend of mine the other day said to me, "Years ago, Iowa used to raise horses and we shipped them East. In a little while, they had the bones and we had the money. Now the East builds automobiles and ships them

West. In a little while, we have got the junk pile and they have the money."

Of course, I appreciate the fact that it is injudicious buying. But the Middle West is suffering from installment sales. According to the great financiers, the plan is economically sound providing it brings the money in to the particular interest that they want protected. Nevertheless it is a mighty bad thing for the farmer who has a hired man or a boy or a girl spending his or her monthly check to pay for an automobile that he or she might do without.

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POWER ON THE FARM¹

ARTHUR WILLIAMS

Vice-President, The New York Edison Company

MERELY for the sake of comparison in the subject under consideration, the comparative inefficiency of the farm without electricity, let us take a hypothetical illustration, even though it may be based upon a background of impossible conditions. Let us select, for this purpose, one of the great industrial and professional activities of the country, segregate it fictionally from all other group activities, and imagine that during the past century this selected industry has been standing practically still, and has been unable for some cause to take advantage of any modern improvements, either in the technical field of production or in the home life of those identified with it, employers or employees. Let us further assume, for the purpose of contrast, that this condition of complete stagnation has existed only in this selected industry, while all others, both in technical completeness, modernity of equipment, and home life of those identified with them, have adopted all modern conveniences and improvements of whatever nature, wherever to be found. With this comparative objective in view, let us select, say, the printing industry and profession, and include in this hypothetical generalization all its plants and their equipment and the homes and living conditions of related employers and employees, their families and all dependent upon them. What would be the effect of this stagnated condition upon the printing industry?

Antiquated Conditions—Lack of Progress

There would still be the old hand-press, with each sheet of paper individually selected and placed in position on the press

¹ Field power for plowing, cultivating and harvesting is not under consideration in this article. That form of service is now abundantly available in independent units, such as the ox, mule, or horse, or by mechanical means, of the gasoline engine type.

before printing, its slow tedious operation often requiring two men, in back-breaking, muscle-straining effort; there would still be the rotary press, turned by hand or kicked by foot; there would be inadequate ventilation, lack of proper sanitation, and the work, day and night, would be surrounded by conditions of a most undesirable and unhealthy nature.

Capital investment in printing plants and equipment would be very limited; employment would be unattractive, efficient workers in the present-day sense could not be secured; the entire industry would be on a very low standard of production and personnel. The modern newspaper, so essential in forming enlightened public opinion, would be impossible; present-day attractive periodicals, often in color, would be unknown, and their number and circulation most limited; there could be no publicity and advertising in the modern sense, so essential for the better development of industry and business.

Home Life Included

Falling within the scope of these imaginary conditions in the profession and art of printing would be the home; candles and oil would be used for illumination; flowing water, hot or cold, or any other of our present numerous household conveniences would be unknown; the homes of the industry would correspond with the homes of a hundred or a thousand years ago, lacking all now so essential in making life livable and attractive to old and young. Discontent would inevitably exist, not only to the detriment of the individuals identified with the printing industry, but to the harm of the community in general.

Picture Presents Existing Farm Conditions

This unhappy picture, while finding no possible application in the industry selected, accurately outlines industrial and home conditions as they exist today in more than ninety per cent¹ of the farm life of the country. Life and labor today on the farm are of the most arduous and undesirable nature. They exist now substantially as they existed a hundred or a thousand years ago, stagnated, unattractive, undesirable, with all of the other industries and professions of the country

¹ National Electric Light Association.

moving forward in step with what has been brought to them through invention and progress. Poor, inconvenient lighting; pumping water by hand; hand-grinding of food for animals; milking cows; sawing wood; churning; all demanding monotonous and exhausting work, which, relatively, in every other industry is performed by power—cheap, abundant, convenient power, requiring only the controlling hand and mind.

Such conditions cannot do other than cause widespread discontent and unhappiness, and an active desire to get away from every form of farm life. Obviously, agriculture must be the last of the fields of production in which one wishes to invest capital or engage as a principal or employee; the farm now invites the least interested and efficient character of labor. Yet farming is the most important of all industries and professions. Were the supply of food cut off, we should starve. If agriculture is conducted inefficiently, either the farmer, as at present, makes less than he should, or all pay more for food, and many are habitually undernourished.

*Cheap, Abundant Power, Productivity, Prosperity—
Kindred Terms*

Something of the injustice to which the farm worker is subjected as the result of prevailing conditions is indicated in the report of the delegation of trade representatives who came here recently under the auspices of the *London Daily Mail*, their purpose being to ascertain why American workers are relatively so prosperous. The answer the commission took back to England—to employers, to workers, and to the public alike—was that our outstanding prosperity is due to efficient productivity, under modern industrial conditions; that this is the result of the almost universal elimination of exhausting human labor, every worker having at his elbow a high average of effective electric power.

*Quoting the President of the American Federation of Labor
on the Importance of Power*

A further illustration of the importance of power, so abundantly available in every other industrial group, is found in a recent address by the distinguished president of the American Federation of Labor, Mr. William Green:

Workers have learned from experience that electrically driven machinery has lightened the burden of employment and relieved them of the drudgery and hardships of human toil. They now do with the machine what at one time required the strength and vigor of their bodies. Work has been made easier, life has been made more tolerable, living conditions have been improved, and workers have been permitted to enjoy the blessings and benefits of modern life.

These favorable conditions do not include the farm worker. Without power he lives and works as in the days of his grandfathers and great grandfathers, back hundreds of years, almost to the beginning of time. He finds his own muscles, and lessening strength with age, continuing in laborious toil where in all other industries power has taken their place. While other men, working eight hours a day, between five and six days a week, earn enough for comfortable and attractive living, his work begins before sunrise and continues until after dark, six days a week, and a material part of the seventh day, with his home conditions, comparatively, most unattractive.

National as well as individual welfare requires that these conditions, now so inherently a part of existing farm life, shall be eliminated to the utmost degree, at the earliest possible moment. The problem of the farmer is the problem of the nation.

Proposed Solutions

The conditions as they now exist can never be righted until power, cheap, abundant, and convenient, can be had on every farm. Many other solutions are before the country, such as protection through the tariff, co-operative buying and selling, and other measures, some of which, if not all, would result in higher food costs to the public. But these agencies, which might become merely political footballs, would fail pitifully in going to the root of the trouble. Without farm power, not one of them would increase farm efficiency or make farm life and work more attractive; while power available everywhere would meet the social and economic needs of the farm, and increase efficiency of productivity, and, without necessarily increasing food costs, enhance the emoluments attendant upon this work, which the farm so rightly deserves. With power, the tariff and other remedial agencies under consideration would assume their proper place in farming, as they have as-

sumed or are assuming it in the wise judgment of the nation in all other industries and professions.

American Public Utilities are Helping to the Utmost

Our public utilities have not been unmindful of the responsibilities resting upon them, or backward in their efforts to solve the problem; rather, with large expenditures and extensive study, they have gone far ahead of any other country in this respect. And this with their own money, whereas elsewhere, at least to a very large extent, what has been accomplished in a much less satisfactory degree has been through the use of public funds and agencies. Even in the much advertised Province of Ontario, backed by the abundant and unlimited resources of that great government, farm extensions and service have been limited, and the cost of service to the farmer is much higher than on this side of the Canadian border.

Solution of the problem of providing abundant and cheap power to the farms seems closely analogous to the corresponding problem now in course of favorable and economic solution concerning the reconstruction of the country's highways, over which the farmer brings his produce to his shipping points or purchasing market. Without passable roads, he could not deliver his products; likewise, without corresponding electrical highways, he cannot receive from the power plant the energy he requires for his home and barns. Just as highways have been provided for vehicles, so highways must be provided for kilowatts and kilowatt hours. It is an economic, not a political question.

Of Greatest Importance to the Nation

The solution of the problem is of paramount importance, not only in the civic, but in the economic life of the nation. With ample power, life and work on the farm would become more attractive, possibly supremely attractive compared with many other activities; the supply of food of all kinds would be more efficiently obtained, the value of farm realty would be increased, net farm income and profit would be enhanced, and the cost of food might be ultimately reduced; farm effort would be accompanied by greater certainty of results in pro-

duction, and the individual, as well as the group, would be protected in many respects against retarding or destructive agencies; farm employment would encourage and develop a highly efficient and desirable character of farm personnel.

Some Statistics, Actual and Estimated

There are now 6,372,263¹ farms in the United States. 452,620,² or 7.11%, have either gas or electric service; 225,000³ of this number, or 3.53%, are connected with electrical central stations. Thus, it will be apparent that almost 93% of the farms of the country are without power in either the homes or for the outbuildings, and more than 96% are without central power plant service.

About 31,240,000⁴ of the country's population live on farms. Farm workers not living on the farms on which they work are not included, but one must assume that their home conditions are no better in character. Probably more than 35,000,000—possibly a full third—of the American population live on farms and under farm conditions.

The realty value of American farms, including land and buildings, is approximately \$50,000,000,000⁵ (\$49,546,523,759); the total value, including machinery and live stock, is in excess of \$58,000,000,000⁶ (\$58,443,000,000); the present annual value of farm products is more than \$13,000,000,000 (\$13,031,000,000). The cost of labor in 1919 was \$1,098,694,590⁷ and for 1920, including the estimated value of board furnished, was \$1,356,403,452.⁸ It is probably much higher today.

¹ *U. S. Census of Agriculture*—"Number of Farms by States and Counties," 1925, p. 4.

² National Electric Light Association.

³ *Idem.*

⁴ U. S. Department of Agriculture.

⁵ *Idem.*

⁶ *Idem.*

⁷ *Idem.*

⁸ *Idem.*

Highway Mileage

There are approximately 3,200,000¹ miles of highways in the United States; as this includes the highways already electrified and those lying within incorporated municipal areas, it is probably fair to estimate that, in round figures, there are approximately 3,000,000 miles of highway which fall within the scope of this paper. As a gauge of present conditions, it may be stated that at the end of 1923, approximately 430,000² miles had been hard-surfaced by federal, state and local authorities. About 35,000³ miles were hard-surfaced in 1923. The best information available indicates that about 500,000 miles or 16 $\frac{2}{3}$ % of the mileage of the country, is hard-surfaced at the present time.

It is estimated that during the past 25 years, more than \$10,000,000,000⁴ have been expended for highway improvement. During the past five years the annual expenditure has averaged \$1,000,000,000:

1921	\$1,149,437,806
1922	898,352,307
1923	996,781,036
1924	1,181,521,115
1925	1,003,124,000 ⁵

And the estimated figure for the present year is also about \$1,000,000,000. Of the money expended, in 1921, 64.61%⁶ was supplied from county, township and district funds, of which 28.04% came from bond issues and 30.17% from taxes; and 35.39%⁷ was supplied from state funds, apportioned as follows: 9.91% was derived from bonds, 3.96% from taxes, 1.88% from appropriations, 2.16% from transfers from counties, 6.9% from federal aid and forest funds, and the remainder, 10.58%, from motor fees, gas taxes and miscella-

¹American Road Builders' Association.

²National Automobile Chamber of Commerce.

³*Idem.*

⁴Bureau of Public Roads, Washington, D. C.

⁵American Road Builders' Association.

⁶*Idem.*

⁷*Idem.*

neous sources. These figures, in their aggregate exceeding \$10,000,000,000, have been quoted as suggesting the ease with which this enormous expenditure has been made, apparently to the satisfaction of everyone, for even those who do not own horses or automobiles, or use them for personal transportation, can appreciate that the benefits derived from good roads are universal—both to the travelers and to the stay-at-homes. The items have also been given in such detail, at the expense of your time, as indicating the sources from which this money has been made available.

Estimated Cost of Farm Electrification

Assuming as an estimate an average cost of \$2,000¹ a mile—the best figures obtainable range from \$1,000 to \$2,500—for circuit mileage and that the area to be covered is approximately 3,000,000 miles of highways, the cost of joining the power plants and the farms of the country by “electrical highways” would approximate \$6,000,000,000. This sum would be lessened by the extent to which highways are now electrified—a figure at the moment unavailable, but seemingly a relatively small percentage of the total.

There would seem little if any question that electric power available on every farm would enormously enhance farm values of the entire country. Were this increase in value but slightly more than 10%—40%² increase has been recently quoted in an actual instance in the state of Alabama—the entire estimated cost of highway electrification—\$6,000,000,000—would be offset in farm-value increments alone. Obviously, the cost of highway electrification is only a part of the problem, but its absence constitutes the missing link which separates the power plant from the farm, and the closing of this gap is the key to the entire situation.

Under existing conditions, the expenditure required for this purpose is so great that, were farm rate schedules to carry the entire cost, they would necessarily be far in excess of any other rate schedules for light and power, and more than the farmer could pay; or, were the cost distributed over electrical service in general, existing schedules would be distorted and

¹ *C R E A Bulletin*, Vol. II, no. 11, p. 7.

² *Powergrams* (Alabama Power Company), October, 1926.

overburdened, and all consumers in existing classifications would be subjected to a rate which would constitute not only an injustice in itself, but greatly restrict the use and extension of the service. As in the country's highway reconstruction, which is being accomplished with such universal satisfaction, some form of collective assistance seems necessary to meet this part of the electrification problem.

Some Suggestions

One suggestion has been tax-exempt securities, confined to the erection of rural transmission and distributing lines, issued under such competent authority as the public service commissions of the states. For this, there is ample precedent in acquiring funds for other purposes in which the public interest is served; and what is more important in the public interest than efficient farming? Again, possibly federal and local taxes could be omitted on rural service for prescribed areas; here, also, is found ample precedent, at least for state taxes, in tax-exempt homes in this and other states. Interest on rural line securities might be paid by farm organizations or the local authorities, with possibly the funds required for the retirement of the securities upon their maturity provided by the utilities rendering the service. Other methods equally or perhaps more adequate and desirable, through which collective assistance might be provided, will doubtless suggest themselves.

Electrical Highways Only Part of the Problem

The provision of electrical highways is but part of the problem. At one end is the electrification of the farm, at the other, the provision of adequate power, either from additions to existing, or the erection of new generating plants. With the electrification of the highways, however, neither of these problems, while representing enormous aggregates of value, seems to present insurmountable difficulties.

Assuming an average cost of \$750 for the preliminary electrification of each farm, the total expenditure reaches about \$4,750,000,000. This could undoubtedly be financed directly or indirectly by the farmers themselves, exactly as other consumers of electric current finance their electrical equipment, the present expenditure for which, on the part of the con-

sumers alone, is approximately \$2,000,000,000 yearly.¹ Perhaps some form of deferred purchase would be necessary, as in purchasing automobiles and in other forms of merchandising, but this would seem to present no serious problem, for the farmer is outstanding for honesty and integrity, and can be relied upon to meet any obligations he may assume.

Knowing the extent to which the public utilities of the country have always been ready to render adequate service and to meet every demand made upon them, it would seem, from the precedents established, that, as great as is the new investment required for this purpose, adequate power will be available whenever demand is made for it. Something of the magnitude of the responsibility at the generating end of the transmission line is indicated when we remember that the energy required in the earlier stages of complete farm electrification would probably amount to not less than 20 million horsepower and represent an investment running into billions of dollars. But, as I have indicated, the public utility men have never been found wanting to meet all proper demands falling upon them, and I judge, therefore—speaking not with authority, but by deduction and from existing precedents—that this part of the problem can be safely left to them, whenever and wherever it may arise.

Interesting Comparisons

The cost of farm electrification, taking the three groups, the farm, the highway and the power plant, is enormous, in all reaching probably some \$15,000,000,000—perhaps even more. But the figures lose something of their terrifying effect when comparing them with the aggregate value of the farms themselves of \$58,000,000,000; or with the present annual farm income of \$13,000,000,000; or with our recent war expenditure of \$32,000,000,000,² averaging \$22,000,000 daily for the entire period, and aggregating more than \$1,600,000,000³ during the last month of the war, a daily average of \$53,000,000; or with our present national wealth, which has in-

¹ *Electrical Merchandising*, February, 1924.

² Bogert, E. L., *War Costs and their Financing* (1921), p. 105, and *Tax Burdens and Public Expenditures* of the National Conference Board.

³ *Ibid.*

creased more than \$145,000,000,000¹ since 1914, at the beginning of the World War, and is now estimated at more than \$350,000,000,000.²

The war expenditure, amounting to more than five times the estimated cost of electrifying the highways of the country—the only part in which public financial assistance, as such, would seem required—was for things which, in the sense of property, have long since disappeared from any tangible inventories, and was intended for injury to, and destruction of, the most priceless of assets—human life. All electrical expenditure of the character indicated would be for materials and services which would add to the national wealth at least one hundred cents on the dollar, to say nothing of great increase in existing material values—and allowing nothing on the human side of the account in the elimination of exhausting labor, drudgery, dissatisfaction, distrust and unrest—elements which, if eliminated from the national life, would be of untold value, whether measured by this great prospective expenditure alone, or even by the entire wealth of the nation.

The solution of the problem from the standpoint of finance, engineering and construction would be materially facilitated were it to be extended over a period of time, say of five or ten years. This would find analogy in the present policy of highway reconstruction. Were a beginning made along permanent and constructive lines, the farmers and the nation would doubtless be content, and many of the underlying causes for the present state of unrest and disturbance in farm matters would speedily disappear.

Some Attendant Considerations

The present percentage of power available on the farms obviously does not necessarily indicate a corresponding percentage in farm production. Thus, the 7% of the farms having power may be productive of, say, 20% of all farm products. The questions under consideration, however, do not primarily relate to acres, or percentages of production, but rather to human beings, who live and work on the farms. It is assumed that every farm will average a family, or the

¹ U. S. Bureau of Census, *Wealth, Debt and Taxation* (1922), p. 18.

² Federal Trade Commission, *National Wealth and Income* (1926), p. 2.

equivalent of a family, and that the percentage of available power practically indicates the percentage to which the human side of farm life and work is affected favorably or unfavorably by its presence or absence.

It may be true, at least to a certain extent, that, as industry concentrates around abundant power sources, the tendency in farming may be in the same direction. And further, just as more widely distributed power tends to decentralize industry, making it possible to locate the factory under selected conditions most advantageous for it and its workers rather than to have its location determined by the availability of power, so universal power on the farm would spread effective and efficient farming all over the country, avoiding intense concentration in any given area, and bringing into cultivation enormous acreages either abandoned or worked far below their natural productive capacity. With abundant power available everywhere, the small farmer would be able to successfully establish himself on low-priced land—another form of greater opportunity, in the national, as well as the individual interest.

In Conclusion

That the present farm problem is real and pressing, and increasingly acute, one can hardly doubt. And that the best interests of the nation, as well as of the farmers themselves, demand that practical and far-reaching steps be taken toward remedying the basic difficulties, seems to me increasingly clear. Neither in the world of politics nor in the world of business statesmanship is there any patent panacea or formula for solving a task of such enormous magnitude. Panaceas and nostrums in one form or another make their appearance in politics when business men fail to deal flexibly with urgent conditions of social and economic necessity or distress, and I know all are anxious that the problems of agricultural relief shall not be the subject of purely political expedients. The task is great, but who questions that it can be accomplished by the men of outstanding ability who now are identified with the management and the public regulation of the utilities, if they but have behind them a sufficient degree of public interest and the constructive support of enlightened public opinion?

POWER ON THE FARM¹

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IT is with diffidence that I venture to discuss Mr. Williams' thought-provoking paper. My chief qualification for this honor is that I am connected with neither the electrical industry nor farming. I can, therefore, approach the subject with an open mind. By contrast with the amount of technical knowledge one should have to reach wise conclusions in reference to "Power on the Farm," I may truly claim that when I agreed to speak on the subject my mind was more than open. It was almost blank! But while Mr. Williams knows all about developments in the electrical field and I know very little, I suspect that he is even farther from being an honest-to-goodness dirt farmer than I am. I conclude this from the very gloomy views he expresses about the present stage of development of American farming. He goes so far as to say: "Life and labor today on the farm . . . exist . . . substantially as they existed a hundred or a thousand years ago, stagnated, unattractive, undesirable." Surely he has never read David Grayson's *Adventures in Contentment*—written, I understand, also at a safe distance from the farm—or even the advertising literature put out by the International Harvester and the Ford Motor companies!

Conditions on the American farm still, no doubt, leave much to be desired but they have hardly been "stagnant" since the Civil War period. Ingenious improvements in nearly every kind of agricultural implement and machine, the gas engine, the tractor and the automobile, have wrought revolutionary changes in the work of the American farmer. But we must all agree with Mr. Williams that these changes have not gone far enough to cause farming to keep pace in its use of labor-saving machinery with manufacturing. Much more needs to be done to bring American farming to the level of efficiency of which it is easily capable.

¹ Discussion of paper by Mr. Arthur Williams, *cf. supra*, pp. 539-550.

Another objection that might be raised to certain implications of his argument is suggested by an analysis of the causes of our present agricultural depression, which gives occasion to this program. Chief among them are the diminished demand for our products abroad and the very slow and uneven adjustment of the farming industry to the new market situation. The remedy for this would appear to be not more production through the use of more labor saving devices, but less production.

But he has stressed not so much the inefficiency of farming as an industry as the unattractiveness of life on the farm as a mode of existence. And as to this there can hardly be disagreement. Not merely in the recent past but for generations in this country we have seen the ablest and most ambitious boys, and, of late, more and more the girls too, leave the ancestral farm to enjoy the advantages of life in our cities. We were saved from any serious consequences from this process of internal migration to the detriment of our farming population until the war period by the constant recruiting of this element from the most promising groups of our incoming immigrants. But since immigration has been so largely suspended, the trek from the farm threatens to result in a lowering of the average intelligence and ability of our farmers. The automobile, the telephone, the radio, and the movie theatre in the nearby village are helping to break the monotony of life on the farm, but the drudgery, especially for the housewife, remains. It is to relieve this drudgery and introduce more sweetness and light into the farm household that Mr. Williams makes his plea for greater appreciation of what power companies are already doing in some sections to meet the farmers' needs for electric power, and for a readiness on the part of local, state and national governments to cooperate and assist.

Notwithstanding dissent from some of his statements, I cordially agree with his main argument and conclusions. To make farming more attractive and to stem the tide that is carrying our best youth to our towns and cities seem to me, as to Mr. Williams, important social aims. And we must all be strongly impressed by the force of the analogy he suggests between our highways for the easy and cheap transportation

of persons and goods, built and maintained entirely at government expense, and highways for the transportation of electrical power.

We began road building in this country with exactly the same presumptions with which we now approach the problem of distributing electrical power. If roads were needed we thought it would be profitable for turnpike companies to build them and that it would be right and proper for them to make their investment pay by levying tolls on the people who used the highways. Experience soon educated us away from such a narrow and unsocial point of view. It taught us first that commercial companies probably could not afford to and certainly would not build highways of as good quality or as rapidly as our expanding needs demanded. It taught us secondly that everyone and not merely those who used them enjoyed the benefit of better roads. For the first reason the local and state governments and of late the national government have concerned themselves more and more with problems of road building. For the second we have given up any thought of collecting tolls from those who use the roads, and while we currently impose special taxes on the owners of automobiles and the users of gasoline to add to the revenues available for the construction and maintenance of roads, this will probably prove a passing stage and this burden may be imposed in the future entirely, as it already is largely, upon the general body of taxpayers.

I agree with Mr. Williams that the time has come when we must recognize highways for the transportation of electrical power as of equal social significance with highways for the transportation of persons and goods. This creates a presumption in favor of government aid, if it can be shown to be needed. But when I review what the electrical industry has accomplished in the last five years without government assistance I am not quite convinced that the time is ripe for government intervention—for this is what government aid inevitably and properly carries with it. Is there not some ground for hoping that the cheapening of the processes of generating and transmitting electricity which has enabled the electrical industry to lower its rates in the face of a rising general price level and rising wages, may continue so that at least the farms that

are not too far distant from the constantly multiplying main power lines may be supplied with electric power on a commercial basis? Mr. Williams is far better able to judge than I am whether this hope is chimerical, but until the technical improvements that are still being made cease to be the principal theme of the electrical journals I fear the attempt to convince the public that the electrical industry needs assistance to render its highest service to American farmers is premature. But if the technique of electrical engineering has not yet been standardized, as has that, for example, of hydraulic engineering, it no doubt soon will be. Mr. Williams has rendered a significant service by making it clear that we have to do here with a new social utility and by emphasizing its importance as a means of restoring the balance of attractiveness between the country and the town. We hear much of the lure of life in the city. He has stimulated our imaginations to foresee a time when power may cause the talk to be rather of the lure of life on the farm.

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HOW SEASONAL REQUIREMENTS OF AGRICULTURE AFFECT DEPENDENT INDUSTRIES

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THE farm buyer taken collectively represents the greatest single sales outlet in our national business structure. When his buying power is good there is likely to be fairly general prosperity. When it is below a fair parity there is a trend toward depression and an inevitable deterioration in our agricultural structure. Although our farm population decreased 1.5% between January, 1925, and January, 1926, it is still the largest single class in the total population. Although it numbered 30,655,000 persons on January 1, 1926, it is at the crack end of the economic whip.

In the old game of "crack-the-whip" the wise ones always grabbed hands first, leaving the inexperienced and weaker ones at the far end of the line where they were easily shaken off. Agriculture is big and unwieldy; hence it is slow to grab and easy to snap loose. The reason for this condition is found in the fact that there are nearly 6,500,000 independent agricultural units. There is a wide diversity of interests and in some respects a conflict of interests within agriculture itself. Agricultural leadership is generally inadequate and none too farsighted considering the difficulty of its problems.

The players in the figurative game we have in mind are rugged, self-reliant, aggressive, and all of them represent factors important in determining the prosperity or adversity of the various groups constituting American agriculture. In the whip are not only industrial and mercantile groups, legislative enactments and national and international conditions, but also the weather, an uncontrollable bully, will be found at the head of the whip. Down the line also will be found insects, plant diseases, soil limitations and other factors beyond the farmer's control. The game has gone so fast and furiously

during the last five years that agriculture may be thought of without too great a stretch of the imagination as being engaged in a dizzy reel of several years' duration. As a result, the farm market is too often an unknown and, to some extent, un-assessable quantity. At best, in spite of its great mass, it is a field in which buying fluctuates all too quickly for the good of the nation. This is readily seen from the present cotton situation, to which further reference will be made.

The present prosperity of cities and industrial areas is due in part to cause-and-effect relationships with agriculture which is supplying the consuming market with relatively cheap food, as a consequence of which the real wages of non-agricultural classes have been increased, thus creating a prosperity attained in a sense at the expense of agriculture. Many classes are claiming an increasingly greater share in the total national income without considering the effect of such demands upon other classes. The effects of these demands can easily be envisaged by reference to the constant increase of railroad wages and railroad rates that has gone on over a period of years, the increase in cost of building construction and other similar increases.

On account of its inevitably seasonal character, both within a single year and over a cycle of years, agriculture is in a weak position in exchanging its commodities for the commodities and services of others. This condition reflects itself in the balance sheets of every class that does business with agriculture. It affects not only the machinery, fertilizer, and seed business but the lumber, cement, automotive, clothing, food and all other industries that supply the necessities of life to the farm family. Under modern conditions the farm family buys very much of the same things, except a few food products, as the city family.

The decrease in farm population during recent years has no doubt been due not only to low relative farm earnings but also to the increasing tendency toward the use of more and better machinery, more and better fertilizer and more highly productive strains of crop plants. The acceleration of its pace in recent years, however, can be traced to the fact that farming on the whole has not been so profitable as other kinds of effort. This is sufficiently demonstrated by the relatively low average

price of farm products, the ratio of which for October was only eighty-one per cent of the all-commodity index.

The packing and textile industries, which buy their supplies from the farmer, are affected in one way by the variations in the fortunes of the farmer, while industries like the farm machinery, fertilizer and seed businesses, relying upon the farmer as their only purchaser, are affected in a different but more intimate way.

In twenty-five years of mature observation of the interrelation between crops and business in the United States, I have noted that although each season the state of the crops continues to be a common topic of conversation and newspaper comment, its influence upon business becomes less marked. Speculative endeavor, of course, continues to consider quantity and quality, particularly of the staples like corn, wheat and cotton, and also the more important of the fruit and livestock products; but business as a whole goes on with less and less thought of the relationship of agriculture to national policy. For the purpose of our discussion we may inspect both seasonal and cyclical variations in agricultural activity and buying power.

Seasonal Variations

The large hazards in agricultural production and the sudden changes in the economic condition of the farmer, due to seasonal changes, give rise to some of the most serious problems that concern industries selling to farmers. The sale of fertilizer, with which I am particularly familiar, is entirely a seasonal movement. For the year ended July 31, 1926, of the total sales made in the twelve states for which statistics are readily available by reason of the tag system, eighty-six per cent occurred during the months of February, March and April. The total sales in these particular states represent over two-thirds of the total for the nation as a whole.

It is a safe generalization to say that in the South, our greatest fertilizer-consuming territory, eighty per cent of the total consumption is shipped within a period of eight weeks. The total consumption of the nation is approximately 7,500,000 tons, of which the South uses approximately 5,500,000 tons. It is necessary, therefore, for the fertilizer industry and others

similarly situated to purchase their supplies months in advance and to manufacture and accumulate their products in order to be prepared to distribute them during the period of heavy movement. This necessity is well illustrated in the case of sulphuric acid, the indispensable chemical for converting phosphate rock into available phosphoric acid. Sulphuric acid is made in great chambers through a relatively slow chemical reaction involving the passing of sulphur fumes through water in the presence of nitric acid. This process must go on practically twelve months in the year in order that the manufacture of acid phosphate for a relatively short period may supply the needs of the fertilizer-using farmer. Such operations mean heavy investment in both plant and inventory.

Similarly it is necessary to purchase potash in some of the numerous forms used in preparing complete fertilizers many months in advance in order that the potash mines of Germany and Alsace may mine, manufacture, ship, and have in the hands of American fertilizer manufacturers in due season the supplies required for the concentrated eight-week shipping period.

Nitrate of soda, synthetic and by-product ammonia, and other supplies are in the same situation. Phosphate rock itself must be mined, shipped, acidulated and cured for a period of from a few weeks to several months in order that it may be in the best condition for making satisfactory fertilizer.

An industry presented with such a problem is one that despite itself, in a period of sudden or even gradual depression, must carry on its books a high investment inventory. When, due to the innate character of agriculture, prices make a sudden decline, with its consequent effect upon purchasing power, the dependent industry suffers great and inevitable losses. The close of the war, for instance, found manufacturers with inventories of nitrate of soda on their hands that cost up to \$100 per ton. In approximately a year the price had receded to but little more than half this figure. The problem of a change in price is, of course, the first concern of the purchaser of such materials. Interest and carrying charges and other similar factors, however, cannot be overlooked. .

Another and an extremely important effect of the seasonal nature of agriculture relates to payment by the farmer for

supplies purchased. Competitive conditions, the absence of fixed trading practices of a permanently sound character, and other elements add a critical feature by reason of the fact that sales are not usually made for cash at the time of shipment and delivery, but on a time basis with a due date after the harvest of the crop on which the fertilizer is to be used. It is estimated that in a single county where fertilizer is used generously, unpaid bills amounting to as much as \$10,000,000 have been carried from one year to another by reason of a conjunction of adverse crop conditions and low prices.

Industries in which sales are made for cash do not have such risks. Those that do business with agriculture can scarcely eliminate hazards of this kind completely. Other industries upon occasion are confronted with situations of a similar character, but industries related to agriculture must incur these risks and expenses every year, for annual crop production makes possible only one turnover a year. In only a few areas is more than one crop produced in a single season.

In addition to other uncertainties, there are wide variations in weather and other features of crop production that make even seasonal variations extremely irregular. Large and small crops succeed each other. Sometimes there is a small crop with a low price and consequent low purchasing power, and at other times there is a small crop with a high price. Then again, as has been observed in the case of cotton, there may be large crops with relatively high prices, and small crops with very low prices. This was well shown when in 1921 the crop of 7,950,000 bales brought on an average at the farm, only a little over sixteen cents a pound, while the 16,000,000 bale crop of 1925 brought eighteen cents a pound. When low price is superimposed upon low production, the effect on dependent industries is most unhappy. The effect on the fertilizer industry was a reduction in tonnage purchased by the Southern farmer from 5,466,000 tons in 1920 to 3,125,000 tons in 1921. Of course, every dependent industry suffered similarly though probably not to so great an extent.

Neither the farmer nor the fertilizer manufacturer can forecast the changes that may occur. Adverse conditions arising within a single month during the usual period of purchase and distribution may prevent the use of hundreds of

thousands of tons of fertilizer. As the commodity itself or the materials for producing it have necessarily been purchased in advance, they are left on the hands of the manufacturer. If the farmer purchases the fertilizer and applies it, and then has a crop failure, unpaid bills may remain in the manufacturer's hands, to be collected over a long period or, too frequently, to remain uncollected.

Cyclical Variations

In periods of prosperity fertilizer sales increase rapidly and lead to excessive provision of manufacturing-plant capacity. Subsequent periods of lessened use leave the industry with lean years and excess producing power, with consequent heavy overhead expense. The expansion to meet the demands for "food to win the war" was so great that it may be safely stated that we still have an excess capacity of at least fifty per cent of fertilizer-manufacturing plant eight years after the close of the war. These long-time swings inevitably leave the industry with a considerable loss to write off at the end of the period.

In 1919-1920 a large production of fertilizer was sold at a high price. Suddenly in 1920 an industrial depression struck the country before collections were made. The result was a tremendous loss due to bad debts, to changes in the purchasing power of the farmer caused by fluctuations in general business conditions, or to the reduction in the purchasing power of the farmers' products, affecting both the volume of sales and the extent of collections. Even the best minds of the industry are unable to forecast the larger and sudden changes in the purchasing power of the farmer. For instance, in August of this year cotton was twenty-one cents. A few persons foresaw the impending drop but very few anticipated that by October the price at central markets would be as low as twelve cents, and that the price of middling at the farm would be as low as eleven cents, with other good spinnable grades selling for as little as seven and eight cents. These prices average at least five cents a pound below the cost of production. Fortunately, some ameliorating conditions exist so that despite a disadvantageous cotton price there is a fair purchasing power in reserve.

Last year it was corn that was the disturbing factor in the

economics of farm life, with some rather loud echoes in political life. In 1923 wheat was in trouble. In 1924 the hog producer had his misfortunes, and so it is around the cycle of conditions and crops. This instability not only occasions different problems for dependent industries, but creates economic and social waste, loss to the farmer, and unsettled conditions among those that trade with the farmer. When such conditions arise, their effect is not only to reduce purchasing but to restrict such buying as is done to commodities of lower grade. This restriction in itself may represent an economic waste, especially as it affects the purchase of fertilizers. A really low analysis fertilizer does not give a return commensurate with its price, compared with one of higher analysis. In 1921 we witnessed a diminution of almost fifty per cent in the quantity of fertilizer sold in the South, but the value of the goods was only about one-quarter of the value of those sold in the previous year.

The experience of agriculture is paralleled by that of the fertilizer industry. Some of the heaviest losses are incurred during and following the largest crops. By reason of nature's bounty, the same acreage, or even less, has on occasion produced a bumper crop compared with other years. This year the cotton grower, having been relatively free from boll weevil for two seasons, expected an infestation of this destructive insect. As a consequence, under the stimulus of a good price, he increased his acreage. The ultimate outcome of the immense crop, both for the cotton farmer and for dependent industries and for the business of the nation as a whole, is still problematical.

I have drawn my illustrations largely from the fertilizer industry because it is so closely related to the exigencies of farming, but the producers of agricultural implements, tractors, trucks, automobiles and many other commodities, are similarly affected. Likewise bankers and local business men can read in both the seasonal and cyclical conditions of agriculture the possibility of profit or loss in their own enterprises.

Sales of agricultural implements are particularly sensitive to farm conditions. Statistics for 1921, the year of the great drop, are not available, but manufacturers' sales of \$538,-000,000 worth of farm machinery in 1920 may be compared

with \$244,000,000 worth of sales in 1922. It is regrettable that there is no census for the intervening year, as it represents a crisis never previously experienced in the farm machinery and implement industry. However, carefully prepared estimates by those in a position to know place the value of sales for 1921 at approximately \$210,000,000. The drop in value in this case is due more largely to decrease in volume than to decrease in prices.

The cyclical variations most easily observable are probably those due to the low prices of cotton in 1907, 1911, 1914 and 1926.

Cooperation and Assistance for Farmers

The attempt to synchronize the seasonal requirements of agriculture with those of related industries is complicated, difficult and often unsatisfactory. The sound development of co-operation, worked out with fairness to business groups dealing with agriculture, will be a great help in the long run. The chief problem is the more immediate one, the one of the next five, ten, or fifteen years. It is obvious that the industries dependent on the farmer as a sales outlet are directly interested in the stabilization of farm conditions. To what extent the farmer should be assisted and how far dependent industries can go in assisting him is one of the problems of the hour. In cases of need they may make sales to farmers without cash as advances on his expected production. Fertilizer companies, for example, frequently advance funds on cotton and other staple crops, not only for the current year after indebtednesses have been settled, but often when there are still large open book accounts against the purchaser. Producers of agricultural implements have sometimes accepted agricultural products in exchange for their own products at a price above the market. There is a limit, however, to which dependent industries can go in assuming the risks of the farmer. A permanent agriculture, which is essential to our national well-being, should not rest upon what in some cases may almost be termed an unbusinesslike advance of funds for production purposes. The fertilizer manufacturer must bear all the usual elements of uncertainty involved in assembling, conditioning, mixing and distributing his goods and furnishing

them to the farmer. He takes tremendous risks on his own account, and he may be going entirely too far in the long run if he undertakes to carry the farmer's burden in addition to his own. Dependent industries have assisted in the development of credit organizations and in the publication of agricultural facts that tend to stabilize farm prices. In periods of industrial change, however, the exigencies of the situation demand more than this, if five years' adverse experience can be trusted. It is possible that experimental trial of some supplement to our present distributive system, if carefully worked, may not be more costly than a continuance of the existing conditions.

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EQUALITY FOR AGRICULTURE WITH INDUSTRY

GEORGE NELSON PEEK

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Conference

I

WE are engaged today in the most interesting and, from the American point of view, one of the most vitally important experiments the world has ever witnessed—a test of whether an independent agriculture, enjoying the advantages and benefits of life on a level comparable with that prevailing in our cities and towns, can be established and maintained.

Excepting on the North American Continent, the labor of farm production is nearly everywhere performed by a peasant class. Farming has tended to become a peasant occupation because rewards are so uncertain and frequently so low that they permanently attract only those who are content with harder work and lower living standards than the more resourceful and aggressive demand. The uncertainty is not only one of yields but of prices; the uncontrolled risks such as weather and pests are followed by other and often equally disastrous risks in the market.

The day of the self-contained farm, existing on its own production aided by a little barter, is definitely past. So is the day when rising land values will compensate for unprofitable crop prices. The condition that has succeeded them is dangerously weakening our farm structure. The issue which the present experiment is to determine is whether our ideal of American agriculture, as distinguished from peasant agriculture, can endure.

II

The facts, figures and causes of our post-war agricultural depressions have too long been matters for discussion. The rehabilitation of the farmer and a method of preventing a recurrence of agricultural depressions now compel attention and immediate action.

To anyone really familiar with the present status of the farmer, certain conclusions are inevitable. He has been producing food for the nation at prices which have been exhausting the accumulated resources of the generations which preceded him, because they have not yielded cost of production. He has been attempting to buy the actual necessities of life at prices which reduced his purchasing ability to a point which prohibited him from buying what he needed.

In the past fifteen years the farm debt has trebled¹ and actual farm land values have declined one-fifth.² During the past six years, the dollar value of the farm investment has declined twenty billions³ while our industrial and urban wealth has increased by that amount or more.⁴ These are evidences of a progressive draining away of wealth from the country to the city which is inevitable as long as the products of the farm remain low in price compared with goods and services which the farmers must buy.

The purchasing power of farm products (according to the

¹The mortgage and personal debt of farmers of the United States is estimated at \$4,200,000,000 for 1910 (Brookmire Economic Service, generally accepted as approximately correct. The estimated total debt for 1920 used as a basis for its calculations by the Bureau of Agricultural Economics is \$12,250,000. The farm census of 1925 has not been finally tabulated on mortgage debt reported, but the figures for states announced to date by the Bureau of the Census show an increase in 1925 over 1920. Census figures show trends of indebtedness rather than totals.

Using census figures as a base of current dollar value, and correcting by use of the All-Commodity Index of the Bureau of Labor Statistics, shows that the 1925 purchasing power of the lands of the twelve north central states was but 78.96 per cent of that of 1910. In other parts of the United States, excepting the South Atlantic group, the same general percentage was recently announced in the *Journal of Land Economics* by Dr. Paul Eke of the University of West Virginia.

³Dr. O. C. Stine and L. H. Bean of Bureau of Agricultural Economics, "Income from Agricultural Production," in table p. 29, *Annals of American Academy of Political and Social Science*, January, 1925 (based on Dr. W. I. King's studies for Bureau of Economic Research), give total farm property value for 1920 as \$79,607,000,000; for 1924, \$59,409,000,000.

⁴In general this statement is verified by the National Industrial Conference Board (*The Agricultural Problem in the United States*), p. 54, table 14, which shows that total national wealth increased between 1912 and 1922 from 186 to 321 billions whereas the total agricultural wealth, between the same years, increased only from 42 to 59 billions.

index used by the Bureau of Agricultural Economics)¹ has ranged from a yearly average of sixty-nine per cent of pre-war in 1922, to eighty-nine per cent in 1925, and at the last published calculation stood at eighty-three per cent in August 1926.² In the words of the National Industrial Conference Board: "It is often said if we could adjust prices to their comparative relationship to other prices which we had in the period from 1909 to 1914, everything would be all right: but as a matter of fact, there is very little evidence that agriculture was in a sound condition in this country before the war."

The limits of this paper will not permit extended reference to evidences of the results of the disparity which have been pointed out by the National Bureau of Economic Research, the National Industrial Conference Board, the U. S. Department of Agriculture, and numerous other institutions and investigators. Our farm plant is contracting in comparison with our population, and with other industries; our agricultural exports per capita have declined twenty-eight per cent³ and our agricultural imports per capita have increased thirty per cent since 1900;⁴ there is persistent and increasing disparity between the per-capita share in the national income received

¹ This index compares the farm price of thirty leading items of farm production with the wholesale price of non-agricultural commodities as reported by the Bureau of Labor Statistics, on the basis of the five years 1910-14 as 100. (See *The Agricultural Situation*.)

² *The Agricultural Situation*, October, 1926 (p. 6), says: "The general index of purchasing power of farm products, in terms of non-agricultural commodities again declined three points from the month previous and stood at 82, the five pre-war years being considered as 100. One year ago this index stood at 93. This latest figure of 82 represents the lowest point reached in 26 months." (*The Agricultural Situation* in November revised its August index from 82 to 83.)

³ Dr. Virgil Jordan, Chief Economist of National Industrial Conference Board, Chicago, October 1, 1926: "The increasing effectiveness of competition of foreign producers in both foreign and domestic markets, is shown by the downward trend of exports and the rise of imports after 1900, both of which were interrupted only temporarily by the exceptional conditions during the war period. Since about 1900 our exports per capita, in quantity of agricultural products, have declined about 28%, whereas the volume per capita of our agricultural imports has risen about 30%."

⁴ *Idem*.

by farmers compared with non-farmers;¹ returns on capital invested in agriculture are small compared with those of other investments.² Most of these are involved in the long-time trends of agriculture.

Of the recent developments the National Bureau of Economic Research says: "The great agricultural depression of 1921 and 1922 was not due to the fall in general prices, but to the fact that the prices of agricultural commodities fell more rapidly and to lower levels than did the prices of the articles the farmers bought."

Another industry finding itself unable to return production costs would restrict output and regulate its movement to market, until prices properly related themselves to costs of production. The major branches of farming, however, face this problem with the certainty that, even if the acreages of the millions of individuals could be accurately regulated, no power on earth could forecast what production would be.

So the producers of our basic crops have hung on, year after year, unable to make protective devices that work for other groups operate for them. They are forced to see their total current supply equated to current demand at a disastrous price because of their inability to lengthen the equation over a number of years, through effective holding and storing against future needs.

If the wheat farmers could adjust their supply to the needs and purchasing power of their several markets, they could use the tariff to protect their domestic price levels. If the cotton growers as a whole could own and carry their temporarily unneeded supplies, they could stabilize their market over a period of years at the best obtainable price, instead of taking

¹To show "the persistent and increasing disparity between the per capita share in the national income of those engaged in agriculture and that of those engaged in other major occupations," Dr. Jordan gave the following figures, "For \$100 that went to each person engaged in all other branches of our productive life, each person engaged in agriculture received \$46. in 1900. It has gone down in 1910 to \$40. and in 1920 to \$39. We find that the percentage of the total national income which has gone to agriculture has steadily declined since 1920, from 13.8% in 1920 to about 7.5% in the last fiscal year, 1925-26."

²National Industrial Conference Board; Dr. O. C. Stine, L. H. Bean, "Income from Agricultural Production" cited above.

the price which the current demand affords, regardless of what the needs of tomorrow may be. The present crisis in cotton provides a case in point. Favorable crop conditions combined with a large acreage to produce a large yield. Prices collapsed upon crop forecasts to a point barely equivalent in purchasing power to five-cent cotton before the war. Congress, a few months ago, failed to pass a measure under which the cotton growers themselves could have adjusted supply to demand. Now the government is attempting to arrange for the withdrawal of four million bales of cotton under conditions which may help the banker who has cotton loans, and the cotton buyers and spinners who have loaded up while prices were at the bottom, but which, under no conceivable circumstance, can be of assistance to the cotton farmer who has been forced to let his crop go.

III

This condition strongly emphasizes the need of a new agricultural policy. It must be broader than any one bill or remedy. The sound program for America must aim toward the development of a well-balanced national life—one which will not stimulate any one form of productive effort at the expense of other equally essential producers. If we pursue this it will inevitably take us into fields of taxation, of transportation, of finance, and of markets. But in the brief time allotted to me I wish to confine myself to the particular phase of the problem which organized farmers have sought to attack through legislation in the 68th and 69th Congresses.

When a surplus agricultural production was necessary to repay foreign investors in the United States and to pay for our imports, our national policy of expanding agriculture upon an export basis worked admirably. When our greatest national test came it was our surplus food production that fed the Allies and decided the issue of the World War. But the international balance shifted as a result of the war. We have the gold. The rest of the world owes us. These facts inevitably limit the volume of exports, both industrial and agricultural, from the United States. Our wheat, pork, cotton and sometimes beef can bring the farmers only the price which foreign buyers will pay for what is left after the domestic need

is satisfied. This condition is crucifying agriculture. It is directly due to our past policy of agricultural expansion, and to the development of the American protective system which keeps farm costs on a high domestic plane while farm prices remain relatively low due to the influence of world competition.

In my reference to the American protective system, I include not only the tariff but such measures and devices as the Adamson Law, restriction of immigration, the Esch-Cummins Law, the Railroad Labor Board and others of like purpose. These all have tended to protect, stabilize and hold immune from world influence industry and labor, and to make effective the work of their organizations in holding up the prices of their commodities and services.

Agriculture, on the other hand, remaining unorganized is still subject to world influences on export crops because the American price of these crops is not determined here by American conditions, but is determined in foreign markets by world conditions. We sell our surplus abroad in world competition, at a price determined by world supply and demand and regulated by world conditions. It follows that the price of the surplus is the price of the crop. This is axiomatic.

For nearly five years this condition, as one of the principal reasons for the existing inequality, has been known by our national administrations. The Agricultural Conference convoked by President Harding in the early months of 1922 called, by resolution, upon the President and Congress to take such steps as were necessary immediately to restore the fair exchange value of the farmers' dollar. The chairman of that conference, who was also chairman of the Congressional Joint Commission of Agricultural Inquiry, appointed by Congress "to determine the cause of the agricultural depression", refused to permit a discussion of what is now generally recognized as the principal cause of the depression, because he said it involved the tariff. In its report, covering some four volumes of facts, figures and diagrams, this Commission failed to mention the only thing it was appointed to determine—the cause of the agricultural depression.

IV

The remedy lies in one of two directions. One, repealing all protective measures enacted for the benefit of other groups, thus enabling the farmer to buy as well as sell in a world market; the other, including the farmer in the protective system, by organizing and financing agriculture so that it, too, can adjust supply to demand, and if necessary divert surplus to export as industry does, and is encouraged to do by the Webb-Pomerene and Edge laws.

The first remedy, the repeal of all protective legislation, is legislatively impossible and certainly undesirable, since protection furnishes security for American standards of living against descent to the level of the world at large. Farmers have not advocated this policy. Even if by cheapening other goods and services their purchasing power could be restored, the low dollar price would leave them under a great disadvantage in relation to their debt. Their indebtedness has mounted from about four billion dollars in 1910 to over twelve billion dollars in 1925¹—a sum greater than the original foreign debt to the United States. If the farmers are ever going to pay that debt, it should be with commodities as high in dollar value as when the debt was incurred—or as near to that figure as possible. To reduce the dollar value of other goods and services might raise the exchange value of farm crops, but if the price level for all commodities, including agricultural products, were thereby lowered and held down, the debt-paying power of the farmer would be reduced.

The second remedy—to include the farmer in the protective system—is no difficult matter. It requires only a mechanism which the producers of the primary surplus crops can use to regulate the movement of their crops to market, with the cost of withholding unneeded supplies, or of diverting small surpluses to export markets, assessed against all the producers of the commodity affected. If you withhold or skim off the surplus which for natural reasons cannot be controlled or prevented in the production stage, the demand can still be satisfied, but at a fair exchange value for the farmer.

This principle would work out in different ways with differ-

¹ Cf. *supra*, p. 65, note 1.

ent crops. The growers of cotton could secure relative price stability through balancing supply and demand over a period of years instead of currently. They could secure for themselves whatever economic advantage there may be in their position as producers and exporters of two-thirds of the world's international trade in cotton. Growers of other crops like wheat, of which the exportable surplus is relatively small compared with domestic consumption, could secure the advantage of tariffs in the domestic market.

The essential element in such a mechanism is the universal assessment or "equalization fee" which distributes the cost of caring for surpluses over all the producers of a particular crop whose excess supplies have to be dealt with to prevent price demoralization.

V

Opponents of the movement have made much use of adjectives and epithets to condemn it without entering into a discussion of the economic principles involved. "Economically unsound", "price-fixing", "unworkable", "socialistic", "class legislation" and other inspired phrases have found receptive places in the minds of many well-meaning people. They are not intellectual arguments and appeal only to prejudice. The people who utter them will do well to stop and reflect. A decaying agriculture is a sure sign of a decadent nation.

I confess I do not know just what is meant by the term "economically unsound." We are discussing laws of trade as distinguished from laws of production, and it is our purpose to extend the laws of trade as applied to agriculture. All trade laws are man-made, and if the proposal of the farmers under discussion is economically unsound then so are many laws of trade which permit holding by an industry of supply and releasing it to demand at will.

In this connection it may be interesting to note that in a full discussion of the subject extending over a period of more than a year conducted by Mr. Chester C. Davis and the writer through General Dawes with Sir Josiah Stamp of England¹

¹ On January 5, 1925, General Charles G. Dawes, Vice-President, submitted a statement of a proposal to manage and divert the exportable surplus

the question of the economic soundness was never raised by Sir Josiah. On the contrary he said:

As has already been emphasized in previous correspondence, the ultimate test of the scheme is whether the return on the capital and labor of the farmer is fair and reasonable in comparison with that secured by capital and labor in other economic spheres. The late Henry C. Wallace, according to the views quoted from his book entitled *Our Debt and Duty to the Farmer* holds that it is not. A judgment on this matter can only be formed by those on the spot.

In speaking of the charge that the proposal is "price-fixing", he said: "The scheme is thus not a price-fixing one, for it merely creates an addition to a moving world price. This, on the assumptions given one, is economically feasible and not fallacious." Of its workability, he said: "There seems to be no reason why this process should not be carried on until the domestic price is pushed to the point at which the return to the farmer will bring his economic position into favorable comparison with that of other producers."

If it is "socialistic" and "class legislation" it must be borne in mind that it is merely a demand of the farmers for relief from the effect of special legislation already enacted by Congress in the interest of other groups.

Many objections have been raised. Only a few of them are worthy of consideration or can be considered here. Two arguments are frequently heard against effective action along this line for agriculture: first, that it would raise the cost of living, and thus lead to demands for higher wages—the so-called "vicious circle"; second, that it would stimulate production, thus aggravating the difficulty. If we admit either one as a valid argument, we confess that there is no solution short of tearing down industry and labor; that farm prices must continue to be low compared with other prices. This

of wheat in the interest of stable domestic prices, to Sir Josiah C. Stamp, English economist. Upon receipt of Sir Josiah's comment, General Dawes invited George N. Peek to correspond with Sir Josiah Stamp through the Vice-President as an intermediary. The American side of the correspondence was carried on by Mr. Peek and Mr. Chester C. Davis. The Vice-President explained that he hoped to bring about a discussion confined strictly to the economic merits of the proposal. This interchange of comment continued until the final summary by Sir Josiah C. Stamp on May 13th, 1926 during his visit to the United States.

denial to the farmer of his production cost plus a small profit means that we insist that his present position of disadvantage must be made permanent, in order to keep industry satisfied.

Much of the mention of increased living costs as a reason for opposing farm legislation does not come from the consumers at all. As a matter of fact, I am convinced that fair prices to the farmer would not mean in the long run any appreciable hardship to the retail consumer. There are adequate safeguards to the consumer against unduly high prices. Imports would flow in when prices rise at home to the limit of the tariff above prices outside. There is a point, too, at which consumers would turn to substitutes which would naturally limit prices, just as stimulated production would increase the supply and check prices if they tended to get definitely out of line with fair production costs.

Retail prices which consumers pay in many cases do not reflect the change in price levels at which farmers sell these great staple crops—which is one reason for the comparative inelasticity of demand. For example; the farm price of cotton in January, 1924, was 32.5 cents per pound; in January, 1926, it had declined to 17 cents per pound; and to-day the farmer is getting 10 to 11 cents per pound on the farms of the South. There has been a drop in the farmer's price to about one-third of the price thirty-four months ago, yet how much has the retail price of cotton goods to the American consumer declined? The farm price of wheat dropped over a dollar a bushel in 1920, without any corresponding reduction in the price of bread, and it has had an up and down range of nearly 90 cents a bushel during the last two years, but the only way the consumer of bread learned of it was to read it in the papers.¹

We must recognize that increased farm prices would react on the cost of living to exactly the same degree, no matter whether the rise was due to voluntarily limited production, or to control of supply by cooperative organization, or to Government action.

As to stimulated production any one of the methods suggested above would have to increase farm prices so greatly that

¹ This is supported by common knowledge and post-war experience with prices of (1) wheat and bread, (2) cotton and cloth.

farming would be attractive to capital in competition with other investment before production could be materially expanded. There is a long gap to be filled before that point is reached. Our per-capita farm acreage and production alike are falling steadily behind our population.¹

The argument that increased production will follow farm legislation, advanced in a country where every public policy has been aimed at the expansion of farm production, would be absurd if it were not urged seriously by men of influence. Among them are our foremost advocates of government help to expand farm production. Singularly enough, men will condemn one method proposed to increase farm prices on the ground that its adoption would stimulate production, and advocate another method to accomplish the same purpose, without recognizing that the effect upon production, whatever it might be, would probably be identical in both cases. Finally, even if production should increase, the farmer alone would bear the burden of it under the plan proposed.

VI

There are many elements in the agricultural problem today that are new. They contribute to the forces that have pressed agriculture out of adjustment in our national life. It is necessary that we understand them and in the light of that understanding define a new national policy.

¹ Describing "the contraction of our agricultural 'plant' and its production relative to the growth of our population," the National Industrial Conference Board says: "Since the beginning of the century our mining production increased about 231%; our manufacturing production about 190%; whereas agricultural production only increased 38%. The number of acres in farms per capita increased up to 1860, but then started to decline since it was then limited by the limits of our territory. The per-capita of improved farm land increased up to 1880, but since then has shown a downward trend. The acreage in harvested crops per capita increased up to 1900. Since then it has shown a downward trend. In the period 1920-1925, this decrease was very sharp, between 9% and 10%. Instead of this process resulting in an increase in yield per acre to make up for the declining per-capita acreage in crops, there has been a slackening in the upward tendency in the yield per acre which was in evidence before the beginning of the century. Neither has there been any increase in the total per-capita agricultural production. In fact the period 1920-1925 shows about 5% below the pre-war years 1910-1914." Also, see Brief of American Council of Agriculture, filed with President's Agricultural Conference, December, 1924.

Foreign countries cannot well pay in gold for either industrial or agricultural products, because we now have the gold; they cannot advantageously pay for our agricultural products with their industrial products because of the tariff. They cannot pay for industrial exports with competing agricultural products because of the tariff, and because of our surplus production in many lines. Yet in the midst of such wealth as no other country has ever possessed, one-third of our people are witnessing the transfer of their savings and capital into the hands of other economic groups. This impoverishment of agriculture, our basic industry, must go down in American history as a dark blot upon our statesmanship.

Without further delay, we should, through legislation, make it possible for agriculture to obtain economic equality with industry and labor in the domestic market, and then in the future let all three groups make adjustments together to meet changing conditions whenever it seems necessary to do so, as a matter of national policy.

I repeat, the sound program for America should aim toward the development of a well-balanced national life, one which will not stimulate any one form of productive effort at the expense of other equally essential producers.

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DISCUSSION: BETTER ECONOMIC ORGANIZATION OF AGRICULTURE

GOVERNOR J. P. GOODRICH of Indiana asked whether the proposal to reduce the tariff ten per cent a year in the hope of reducing prices was not inconsistent with CONGRESSMAN DICKINSON's assertion that the tariff does not affect industries which export a large share of their output and which are therefore governed by world prices. The automobile industry, he remarked, buys materials in a protected market, but enjoys no protective tariff on automobiles and must compete in the world market. He further questioned whether the Iowa farmer mentioned by MR. DICKINSON as having mortgaged and lost a farm was really typical. While some farmers and some banks had failed, because of unsound management, thousands of others had not failed. Failures were less frequent in counties where farmers diversified their crops and sold finished products rather than raw materials.

By way of illustration, MR. GOODRICH described conditions in his own district, Randolph County, Indiana. Randolph County is a typical agricultural district. The only town in the county has a population of about 4500. The value of livestock sold in 1925 was \$4,565,000; the value of poultry and eggs, \$627,850; butter and dairy products, \$416,000; corn, about \$150,000. In 1922 and 1923 all of the eighteen banks in the county were borrowing money to tide the farmers over, but at present the farmers were paying their debts, and the banks were not borrowing. The total amount of mortgages recorded was \$1,772,000 for 1919, \$1,865,000 for 1920, \$2,135,000 for 1921, and \$1,189,000 for 1922; perhaps fifty per cent of these amounts had been paid off. But in 1924 some \$903,000 was paid off, while new mortgages amounted to only \$733,973. In 1925 the amount paid off was \$1,600,000 and the new mortgages \$990,578. Some farmers who mortgaged their land too heavily had to sell, or lost their land. But in the past year there were only five per cent as many foreclosures in the county as during any year from 1892 to

1896. In reply to the statement that farmers lived and worked under antiquated conditions, MR. GOODRICH described the marked innovations that had occurred within his own lifetime—the introduction of farm machinery, sanitary plumbing, electricity, automobiles, moving pictures, furnaces, radios, etc. He concluded by expressing the opinion that the McNary-Haugen Bill was not a sound method of aiding the farmer.

MR. DICKINSON, replying to GOVERNOR GOODRICH, suggested that if Iowa farmers diversified their output the result would be a surplus of poultry and dairy products on the market.

GOVERNOR GOODRICH, replying in turn, said that the corn crop went into some form of manufactures, excepting the less than ten per cent exported. What he asserted was the necessity for the farmer to manufacture his raw material, instead of selling it to others to manufacture.

MR. WILLIAMS: May I just take a second to say to the Governor that I want no better advertisement for electric power than the Governor standing here himself with a smile on his face, a bath every day, hot and cold water, no laborious work on his farm. He belongs to the seven per cent and not to the ninety-three per cent which I put outside this distinguished and favored group.

MRS. FREDERICK C. BURSCH, Chairman of the Committee on Living Costs, Connecticut League of Women Voters, discussed the significance of electric power as a substitute for the drudgery that had hitherto fallen to the lot of the woman on the farm. To be effective in this respect, electric power must be cheap. The operation of the Boulder Cañon and Muscle Shoals projects by the government would serve as a sort of yardstick by which the achievements of private capital in providing power economically could be measured.

MR. PHILIP W. HENRY (Consulting Engineer, New York City):—With regard to power on the farm, perhaps some of those present may have seen in the *Sunday Times* of October 31st, the account of a plant recently erected on the farm of the

Walker Gordon Milk Company, at Plainsboro, N. J., for the artificial curing of alfalfa. This plant, which can work rain or shine, takes the green alfalfa and in half an hour turns it into the highest grade of alfalfa meal, the ordinary quality of which sells for \$30 to \$40 per ton on the dairy farms in the vicinity of New York and Philadelphia.

This operation requires 90 horsepower, of which 10 are used in making mechanically the green material into a mattress ten feet wide and eight inches thick; 10 horsepower are used in driving this continuous mattress through a furnace 150 feet long, where a mixture of air and combustion gases at a temperature of 275 degrees F. are forced through it. Thirty horsepower are required for the fan or blower, which mixes the air and gases and forces them through the alfalfa. The grinder, to which the cured alfalfa passes automatically, takes 40 horsepower, and by the same operation the alfalfa meal either is blown into the storehouse close by, or can be fed automatically into bags.

The capacity of the plant is two tons of alfalfa meal per hour, which means the evaporation of four to five tons of water per hour. Inasmuch as the production of a ton of alfalfa meal requires only one-fourth to one-third of a ton of coal, the cost of fuel is not so large an item as might be expected. The labor expense too, is small, as only three men are required to operate the plant.

This plant is not a machine to be sold to the farmer, but must be worked by a corporation or by a group of farmers; for the cost of the plant erected is around \$25,000, and in order to work economically it must handle a large tonnage. It is designed to take care of 600 acres in alfalfa, or perhaps 400 in alfalfa, with 200 acres planted first with winter rye or oats, cut green early in the spring, before the first crop of alfalfa is ready. This area would then be planted with soy beans which would be cut late in the fall, after the alfalfa had finished. In this way there would be practically a continuous operation from May to November, thus introducing a new régime into agriculture. The product in all cases would be a concentrate, or feedstuff, containing from 14 to 18 per cent of protein, the alfalfa meal analyzing the highest.

Another virtue of this system is that the entire crop is saved, for none of it touches the ground. When cut it is elevated into a wagon running alongside the mowing machine, and taken to the drying plant which may be several miles distant.

DR. BEMIS asked who was to own and maintain the power lines of which MR. WILLIAMS had spoken.

MR. WILLIAMS replied that the important thing was to get the power to the farm by some practical method, which could be found if the public desired a solution of the problem.

MR. HAMLIN discussed the problem of maintaining a balance between agriculture, commerce, and industry, and suggested that to this end it might become necessary to abandon the tariff and substitute direct governmental aid.

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The first of these was the discovery of gold in California in 1848. This led to a great influx of people to the West, and the establishment of many new settlements. The second was the discovery of gold in Colorado in 1859. This also led to a great influx of people to the West, and the establishment of many new settlements. The third was the discovery of gold in Nevada in 1859. This also led to a great influx of people to the West, and the establishment of many new settlements. The fourth was the discovery of gold in Idaho in 1860. This also led to a great influx of people to the West, and the establishment of many new settlements. The fifth was the discovery of gold in Montana in 1862. This also led to a great influx of people to the West, and the establishment of many new settlements. The sixth was the discovery of gold in Wyoming in 1869. This also led to a great influx of people to the West, and the establishment of many new settlements. The seventh was the discovery of gold in Utah in 1871. This also led to a great influx of people to the West, and the establishment of many new settlements. The eighth was the discovery of gold in Arizona in 1876. This also led to a great influx of people to the West, and the establishment of many new settlements. The ninth was the discovery of gold in New Mexico in 1878. This also led to a great influx of people to the West, and the establishment of many new settlements. The tenth was the discovery of gold in Texas in 1880. This also led to a great influx of people to the West, and the establishment of many new settlements.

The discovery of gold in California in 1848 was the first of a series of discoveries that led to the establishment of many new settlements in the West. The discovery of gold in Colorado in 1859 was the second of these discoveries. The discovery of gold in Nevada in 1859 was the third of these discoveries. The discovery of gold in Idaho in 1860 was the fourth of these discoveries. The discovery of gold in Montana in 1862 was the fifth of these discoveries. The discovery of gold in Wyoming in 1869 was the sixth of these discoveries. The discovery of gold in Utah in 1871 was the seventh of these discoveries. The discovery of gold in Arizona in 1876 was the eighth of these discoveries. The discovery of gold in New Mexico in 1878 was the ninth of these discoveries. The discovery of gold in Texas in 1880 was the tenth of these discoveries. The discovery of gold in California in 1848 was the first of a series of discoveries that led to the establishment of many new settlements in the West. The discovery of gold in Colorado in 1859 was the second of these discoveries. The discovery of gold in Nevada in 1859 was the third of these discoveries. The discovery of gold in Idaho in 1860 was the fourth of these discoveries. The discovery of gold in Montana in 1862 was the fifth of these discoveries. The discovery of gold in Wyoming in 1869 was the sixth of these discoveries. The discovery of gold in Utah in 1871 was the seventh of these discoveries. The discovery of gold in Arizona in 1876 was the eighth of these discoveries. The discovery of gold in New Mexico in 1878 was the ninth of these discoveries. The discovery of gold in Texas in 1880 was the tenth of these discoveries.

PART II
INSTALLMENT PURCHASING
ITS MERITS AND DEMERITS

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ECONOMIC PROBLEMS INVOLVED IN INSTALLMENT SELLING.¹

EDWIN R. A. SELIGMAN

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WHAT is commonly known as installment selling has gone under a great variety of names, such as credit merchandising, time sale, partial payment, hire purchase, contract selling, deferred payments, installment buying, pay-out-of-income, and installment purchase. The essential feature of the phenomenon consists in substituting for cash payment or deferred payments in a lump sum a system of deferred payments in partial sums or installments. How much, if anything, is to be paid in cash, at what intervals the subsequent payments are to be made, how large each successive installment is to be, under what conditions and with what security the sale is to be effected—all these are details which, however important in themselves, do not affect the ultimate explanation.

Inasmuch as installment selling involves the use of credit, it is as old as the appearance of credit itself. We find it mentioned in the Babylonian records; a recently deciphered papyrus affords interesting details of such a transaction in ancient Egypt; we know that in classic Rome it was more or less familiar as applied to real estate. In the Middle Ages and later on with the advent of public borrowing the use of installment credit became very common, as witness the issue of terminable annuities in Europe or, more recently, the use of serial bonds in this country. Of an analogous character is the system of life insurance, which is based upon premium payments in installments.

What is, however, more generally characterized at the present time as installment selling is the application of this feature of successive partial payments to the purchase of ordinary commodities for the purposes of consumption. Even

¹ Introductory address delivered by Professor Seligman as presiding officer at the First Session.

here, however, there is nothing essentially new in the practice. The sale of furniture on installments was common in the continental countries of Europe and especially in France in the seventeenth and eighteenth centuries. The system was introduced into this country in 1807 in the furniture business. In 1856 the Singer Sewing Machine Company adopted the installment method of disposing of its products; and it rapidly spread to its competitors. Installment selling in pianos and in the book business has been customary for over a century and we have only to point to the building and loan associations in this country to realize how strong and how ancient a factor this system has been in the case of houses.

The modern development has been due, however, to the extension of an old principle into new fields. This has assumed two distinct forms. In the case of real estate the installment principle has been applied not only to the purchase of plots in the most minute subdivisions, but also, still more recently, to the financing of large apartments and other structures on the balance over and above the first or the second mortgage. In the second place, the installment system has been applied to goods, wares, and merchandise apart from land and houses. In this development the automobiles took the lead. Exactly when this began it is difficult to ascertain, but by 1916 it had become sufficiently important to warrant the appearance of separate finance companies to facilitate the transactions. Even thus, however, the volume of sales was relatively insignificant and it is only within the last half-decade that it has grown to be important enough to attract wide attention. So successful, however, did the system become that it has now spread within a few years to a wide variety of commodities, the most important being radios, refrigerators, vacuum cleaners, and the like, and more recently still, jewelry and clothing.

The total amount of sales on the installment plan has been variously estimated as between five and seven billions of dollars, out of total annual merchandise sales of some forty billions. A more careful computation of my own results in an estimate of about four and a half billions out of a total of thirty-eight billions. These figures however, do not include installment sales connected with real estate which we shall omit from the picture today.

The recent and rapid extension of installment buying has brought with it an entirely new machinery of its own and is adding a fresh chapter to the history of credit transactions in this country. Owing to the novelty and to the rapidity of the development the system has been quite differently estimated and the reactions on the part of individuals have been very extreme. As with every great economic revolution—and the system of installment selling may aptly be so characterized, some individuals and classes have been benefited, others have been injured. Most of the opinions expressed have been the more or less unconscious reactions of these benefits or injuries. No adequate study has yet been made by impartial investigators to seek to determine the real economic significance of the system. I may perhaps be pardoned for saying that for over six months some of my colleagues and myself have been engaged in a comprehensive investigation into the subject and that my report will be ready within a few weeks or months. It will be my pleasure today, and especially in view of the fact that the following speakers will present different reactions to the problem, to limit myself to a short statement as to some of the fundamental economic considerations involved in this difficult subject.

The first point is as to the character of the credit involved. It is commonly stated, as if it settled the question, that installment selling is an entirely new departure in that it adds to the old and well-tried system of producers' credit this new and illegitimate form of consumers' credit. Credit for production goods is one thing; credit for consumption goods is another.

As to this point, it may at once be noted that the ordinary distinction as found in our economic treatises between production and consumption is in great need of revision. In the first place the idea of production itself is very unclear. Does production mean the attainment of a surplus, as when we speak of a productive enterprise, or does it mean the actual creation of more goods and commodities, or does it mean the production of immaterial as well as of material wealth? Is society more interested in the production of wealth or in the production of welfare? In the second place, what do we mean by consumption? Ought we not to distinguish between using a thing

and using up a thing? Using is equivalent to utilization, using up is equivalent to destruction. Must we not be careful, in a more refined analysis to point out that commodities may be utilized so as to increase production, as coal in the furnace; or to maintain production, as food designed to keep up one's activities, or to decrease production, as the use of injurious drink or excessive food? In other words, must we not supplant the idea of consumption by the concepts of productive utilization, of neutral utilization, and of wasteful and destructive utilization? That is to say, from the point of view of social progress must we not do much more than to distinguish simply between producers' capital and consumers' wealth, between producers' goods and consumers' goods, between producers' credit and consumers' credit? If I am correct, we must test the economy of installment selling, not by the old shibboleth of consumers' credit, but by a careful consideration of whether in each particular case it involves a productive or a destructive utilization of wealth.

In the second place the statement is often made as if it were decisive that we must draw a line between necessities and luxuries. To buy a house on the installment plan is defensible, but to buy a radio set or a piece of jewelry is illicit. Here again, we need a clarification of ideas. What is luxury, and is all luxury reprehensible? Voltaire pertinently asked: "In a country where all the inhabitants went barefooted, could luxury be imputed to the first man who made a pair of shoes for himself? Or rather was he not a man of sense and industry? And with respect to the man who first had a shirt washed and ironed, I consider him an absolute genius, abundant in resources and qualified to govern a state."

In other words, must we not recognize that progress consists in converting superfluities into conveniences and conveniences into necessities? Furthermore, even where a commodity may be called a luxury in the sense of being costly and expensive, must we not again distinguish between the various kinds of luxury according as they connote either productive or destructive utilization?

If the use of silk stockings by a working girl or the purchase of an etching to adorn her room is symptomatic of a struggle to attain a higher standard of life, is it necessarily uneconomic

or reprehensible? Ought we to lump together installment selling in the purchase of champagne and of washing machines?

Finally, when we attempt to analyze with what kind of credit we are dealing, is it not important to make a further distinction and to ask whether the utilization in question occurs before or after the down payment? If, to use a less extreme example, we take a pair of silk stockings which last three months, as compared with an automobile which may last five years or more, is it not a matter of importance to ascertain how much of the series of utilities embodied in any commodity remains after payment down and how much of a balance there is in the so-called repossession value?

In short, without stopping to discuss the matter in detail here, is it not obvious that in any treatment of the new form of credit involved in installment sales, we must make a much more careful analysis than is to be found in the ordinary haphazard, slapdash expressions of opinion?

After having satisfied ourselves as to what are the characteristics of the credit involved, the next question deals with its effects on the consumer or the one who utilizes the credit. Does installment selling tend to distort the judgment of the consumer or does it, on the contrary, tend to rationalize the consumer? Are we to deal, in this case, with the average man, or must we distinguish between different classes of men? Does the installment selling weaken the strong or strengthen the weak? That installment selling is susceptible of abuse in this respect is scarcely open to doubt. In cash sales the tendency to discount the future operates to discriminate against durable consumption goods. In installment sales the abstinence is in the dim future, and the reward is most pronounced at present. That sellers can take advantage of this and induce people to buy things which they think they want without really needing them is no doubt possible. But, on the other hand, is it not equally true that installment selling often leads the individual to look ahead with more care and to plan his economic program with a greater degree of intelligence? Is it not true that one of the great weaknesses in American economic life is the failure of individuals to construct a personal budget? Will not the very need of meeting periodical payments for commodities that continue to afford useful services,

lead to more accurate valuations and more intelligent judgment on the part of the individual? If a thing is really worth preserving, will the average man not work a little harder or be a little more economical in other respects in order to keep what has been partially paid for? Here again is it not important to distinguish among classes of commodities as well as among classes of men?

Under this same head it would be desirable to attempt to estimate the effects of installment selling on savings. The ordinary figures that are given as to the increase of savings-bank deposits and the like, and the ascription of this result to the eighteenth amendment or to installment selling, or to any other single cause, are of course of little value. An inductive study here seems well-nigh impossible. Consequently, we are thrown back upon general considerations. Is installment selling thrift or spendthrift? Here again is it not important to revert to our distinction between productive and wasteful utilization? Does it not depend largely upon the character of the consumption goods and the use to which they are put by the consumer? If installment selling leads the individual to buy something which he does not really need, or which satisfies only a passing whim, or which transcends his real prospective capacity to pay, it is entirely probable that the ensuing burden will so discourage him as to impair his desire to save. He will then be somewhat like the negro farmer who has gotten so hopelessly in debt to the cross-roads usurer that he becomes reckless and improvident. If the process repeats itself he will end by being permanently subjected to the creditor.

But is there not another possibility? If the commodity is in itself a really desirable one and if the individual would be inconvenienced or have his real productive efficiency diminished by his inability to purchase the commodity for cash, will not installment selling augment both his capacity and his desire to save in order to pay for it? Let us remember the story of the darky in Alabama who was recently seen driving a very disreputable-looking flivver. A passer-by accosted him and said "Sambo, how much have you paid for that wonderful machine?" "Ten dollars down, Massa," was the reply. "But why do you run it on its rims?" "Well, Massa, you

wait and see how long it will be before I save enough to put on the tires."

The next problem involves the effects of installment selling on market conditions. Here again we encounter not a few hoary fallacies. Does installment selling increase the demand or simply advance the time when the demand becomes effective? Some have contended that installment selling cannot result in an increase of general purchasing power and that any growth of present sales is certain to be offset by a decrease in future sales. Elaborate charts and arithmetical computations are added to prove this point. But all this assumes a negative answer to the preceding question. It takes for granted that there cannot possibly be any stimulus to the productivity of the individual as a result of his acquisition of the commodity. If, through the use of installment credit consumption, goods which in the long run minister to the efficiency of the individual are made available to some who would not otherwise be able to obtain them; if, in other words it puts such goods at their disposal at an earlier date than they would otherwise have been possible, does the aforesaid result necessarily follow? Does consumption never mean productive utilization? To the extent that it does, purchasing power is augmented.

Of a piece with this is the argument as to the increase of costs. Naturally if the costs are excessive or if the finance charges are cleverly concealed, it is clear that they may not only impose a countervailing burden on the cash purchaser, but actually reduce the amount otherwise available for the satisfaction of the consumer's wants. But if we may depend on competition to reduce the charges to a fair level, is the problem so different from that involved in paying for the services of the banker when he grants commercial credit for a price? From the economic point of view, the question is not as to the existence of the cost, but as to the worthwhileness of the costs. If the cost more than pays for itself in ultimate satisfactions, is it to be reprobated? If we pay little, we frequently get little; the best service often means the highest-priced service. Is there not an economy of high prices, as well as an economy of high wages?

In the next place, we are confronted by the question whether installment selling increases production. This is naturally a

matter of great importance to those in charge of our industries. The answer to this question, however, depends largely upon the preceding consideration. Does installment selling merely anticipate demand or does it augment purchasing power? Here again, is it not rash to make a comprehensive generalization? Is there not a difference, for instance, between installment selling in the paint business, where it has been a conspicuous failure, and installment selling in automobiles, where it has been a notable success? In the ten-payment plan in the clothing trade, the increased sales of certain concerns have been secured at the expense of decreased sales in competing concerns or of lower sales in other lines; on the other hand, is it not probable that in the case of refrigerators or washing machines, the economies of cost and energy may have meant an ultimate growth of purchasing power? Moreover, if we take installment selling in general, must we not consider carefully the problem of satiation of demand or the so-called saturation point, that is, whether the installment business in any particular enterprise is in its initial stage or has reached the stage where new products are bought largely for the purpose of replacing worn-out or discarded goods? The effect of installment selling on production will therefore differ not only with each class of commodity but possibly also with each successive period of time.

The final problem is that of the effects of installment selling on the credit structure of the country. This includes several points.

In the first place, are the risks attendant on installment selling peculiar to consumers' credit or do they simply constitute another version of credit risks in general? From one point of view, it would seem that consumers' credit does involve special risks because in comparison with producers' credit there is apt to be a somewhat less close calculation and a somewhat less accurate accounting. This is no doubt due to the fact that the anticipated income of the producer is measured in money, while that of the consumer is estimated in the more intangible terms of future enjoyment. Moreover, it is also true that consumers as a class do not possess the same skill in financial management as that displayed by business men. Consequently, expectations and results will probably coincide

more closely in the case of production transactions than in that of consumption transactions.

On the other hand, nothing is more familiar than the differences among individual producers or individual business men. Credit risks in ordinary business are classified not only according to categories of business, but more especially according to the credit standing of the individual. If Smith has a credit rating of A and Jones a credit rating of C, it is more than probable that a consumers' credit extended to A will be safer than the producers' credit extended to C. In other words, what is common to both producers' credit and consumers' credit, namely the rating of the individual, is more significant than any distinction between producers and consumers as a class. Installment selling may indeed need a technique of its own and may require a more careful and detailed examination into the solvency and reputability of the individual; but at bottom the problem is one affecting the grant of any kind of credit.

An analogous criticism of installment selling is based on the allegation that competition not infrequently leads to a mad desire on the part of the dealers to increase present sales at all costs, often even without due regard to ultimate safety, and accordingly to reduce the terms below the level demanded by ordinary prudence and business sagacity. That this occasionally happens is indubitable; and even more certain will then be the unfortunate consequences. But here again, can we say that such practices are peculiar to installment selling? Do we not find essentially similar phenomena in other fields, under the name of cut-throat competition? And does not experience show that such methods finally bring their nemesis with them?

The next question under this head is whether installment selling tends to accentuate the business cycle and by driving the peak somewhat higher prepare the way for a correspondingly deeper trough when the slump comes. To discuss this adequately would take more time than is now at my disposal. But attention may at all events be called to certain considerations.

While we do not yet thoroughly understand the causes of business fluctuations, we know at all events that they have thus far been a concomitant of our modern capitalist system. Be-

fore the advent of industrial capital and the factory system, periodic business crises were unknown. If, therefore, business cycles are due to the presence of capital and if credit connotes an addition to, or a more intensive utilization of, capital, it would follow that this new form of credit would be destined to intensify business crises.

This presupposes, however, that the credit involved in installment selling denotes a net addition to the volume of credit. Whether this is true is by no means assured. The ten-payment plan in clothing, in all probability involves no greater volume of credit than does the old plan of thirty-day collection. To the extent that in other lines installment selling replaces the system of open accounts there is again little if any net addition to the volume of trade. Moreover, when we consider the aid given by banks,—and that is the important point—we must remember three things: that a part of all installment sales consists of cash payments; that only a part of the installment business is managed by finance companies; and that at any given time the volume of outstanding installment paper is necessarily much less than the total amount issued. When we consider these facts it will be realized that the commitments of the banks due to installment paper are very much less than the total amount of installment sales and, moreover, represent a comparatively small part of their entire advances. The effect upon the intensification of the business cycle is accordingly apt to be less than is sometimes imagined by those who think in terms of total sales on installments.

To this must be added certain other considerations. If installment selling is largely dependent upon payments from the current income of the consumers, we must inquire what is the effect of a business crisis upon wages, as compared with profits. That profits disappear in a business crisis is certain; that unemployment grows is equally sure. But the unemployment is only partial, not total; and the aggregate amount of wages or salaries that continue to be paid even in a period of depression is still substantial. Profits stop, wages and salaries do not stop. From this point of view consumers' credit, which depends so largely upon wages and salaries, is likely to produce less effects on the business cycle than producers' credit, resting upon profits.

Finally, we must remember that there is a difference also in the liquidity of the loan. Not only are the loans due to installment selling in general of a shorter duration than in the case of ordinary business credit to producers, but there is also a distinction in the following respects: when the time comes to pull in sail, installment selling can cease forthwith; if the general business outlook is squally, the prudent dealer will stop selling on installments and with every succeeding week the total volume of outstanding paper will diminish, until within a few months it completely disappears. In the case of the ordinary business concern, however, it is precisely in bad times that the bank is compelled to continue to extend its credit to customers of doubtful solvency, in order if possible to tide them over the difficulty. A sudden and complete cessation of lending is in the one case a dramatic, in the other, a prosaic phenomenon.

It is perhaps true that as the volume of installment paper increases, it will approximate in this respect more closely to ordinary commercial paper; and that the lenders will be induced, by the pressure of events, to deal more considerately with the consumer, as the banks now do with the producer. At present, however, the balance, in this one particular, seems to be swinging in favor of consumers' credit.

If we take all these points into consideration, it follows that while in some respects consumers' credit tends to intensify business depressions, in other and more important respects, the opposite is the case. Frozen credits are often but not necessarily the concomitant of installment selling.

The problem of safeguarding the credit structure is one common to all forms of credit. Loan sharks are of hoary antiquity; installment sharks have grown apace with the new business. Blue-sky legislation has been enacted to protect the innocent investor; similar laws albeit with a new name, will no doubt soon appear in the installment field. In the endeavor to ensure safety and to minimize losses, much progress is being made. As an example we have only to call attention to the opposing arguments of the recourse and the non-recourse system in the automobile field, or to the controversy as to terms which has played so significant a role in the deliberations of the finance companies.

Furthermore, it must not be forgotten that installment selling, like every institution, is subject to the perils of novelty. If this were the time to deal with the subject fully, it could be pointed out that in the course of history credit has assumed manifold forms; and each new form of credit has had to fight its way to recognition after going through three stages: that of initial growth, that of the sloughing off of abuses, and that of the final emergence of the soundness of the principle. In the Middle Ages credit to the farmer was frowned down upon as usury. At the beginning of modern times when banks were introduced and when the abuses were rampant they were vehemently opposed. In our own country many a sad chapter of history might be filled with a description of the pet banks or the coon-box banks. No less an authority than Raymond wrote about a century ago in his treatise on political economy that banks in general promote extravagance and speculation, cause sudden fluctuations in the value of property, and consequently produce extensive failures. "None of the great and substantial departments of industry" he said, "can be prosecuted with money borrowed at bank interest". How far do we share those views today?

Finally, without attempting to formulate any conclusion or to forestall what the distinguished speakers of today will tell us, we may point out that installment selling has engendered new institutions and has created a new technique. While it has undoubtedly come to stay, all manner of abuses and of perils which it would be shortsighted to deny have crept in. What is needed is a sober and impartial analysis of its true significance. As the years roll by, outworn methods will be discarded; new corruptions will appear. Is it not the part of wisdom to separate the chaff from the grain; to be on our guard against the more obvious dangers; and to eliminate the improper practices until, precisely as in the case of our existing banking structure, we may be able to distinguish the sound from the unsound, the real from the specious. When installment selling comes to be measured by these criteria, may we not expect to learn that the innocuous and the salutary must not be confounded with the inappropriate and the regrettable, and that in its ultimate and refined forms, it may be recognized as constituting a significant contribution to the modern economy?

THE RELATION OF INSTALLMENT SELLING TO THE CREDIT STRUCTURE.

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INSTALLMENT selling has become one of the topics discussed most in business circles. Opinions pro and con are freely offered by the friends and foes of the system, but reliable data sufficiently complete to justify definite conclusions are unfortunately not available. We are compelled to base our opinions largely on general estimates and on incomplete statistics, but some of the figures obtained are fairly reliable.

In the first place, let us survey the situation as it exists at present. There is nothing revolutionary or unique about installment selling—it is a system of granting retail credit, sometimes on a secured basis, with clearly specified payment dates. Whether we sell an article on sixty days' open credit or on terms requiring a down payment of ten per cent and installments of ten per cent a week makes little real difference, and all the elements of conservatism in such a case would be in favor of the installment sale.

It is also obvious that as long as the article purchased is directly or indirectly essential to the future productivity of the individual, it is to the interest of the community that he be placed in possession of it as soon as possible. In judging what are necessities and what are luxuries we must take cognizance of the great changes that have taken place in our social structure during recent years. An automobile is as much of a necessity to-day to a large percentage of our city and country population as shoes and clothing. If the price of the necessary article happens to be greater than is immediately available out of the individual's current income, the installment plan performs a lasting service to the community by placing him in possession of it at an earlier date than would be possible under the "save-and-pay-cash" plan.

Installment selling developed gradually for many years,

largely along these sound lines. Homes, sewing machines, furniture, and other necessities have long been sold in this manner, doubtless to the benefit not only of the individuals concerned, but also of society as a whole. To a small extent luxuries were occasionally sold this way, but the total volume of such sales was an insignificant part of the total sales of the community. This was the first phase of the development of the business.

The second phase was the era of expansion caused by the advent of the automobile. The phenomenal success of the automobile companies in increasing their sales by this method attracted the attention of those in many other lines, notably washing machines, electric refrigerators, vacuum cleaners, heating furnaces, oil burners, etc., all of them doubtless entitled at least to some extent to come under the classification of necessities since they tend to increase, directly or indirectly, the productivity of the individual by the satisfaction of some of his reasonable wants.

• But we now come to the third phase in which men engaged in all sorts of lines of business are entering the installment-sales field for no other reason than that they feel the necessity of obtaining what they consider their share of the consumer's income. They allege, doubtless with some degree of truth, that unless they grant installment credit terms, the purchases of the public will be deflected to other lines of trade and their business will suffer.

When viewed broadly from the standpoint of one interested in the operation of our *entire* economic structure and not merely from the standpoint of the individual interested solely in *one line* of business, installment sales seem to have the following effects on the total volume of sales:

1. *Temporary stimulation* arising from purchases made in anticipation of future income. In addition to to-day's egg, we induce the hen to give us to-morrow's also. We thus have two eggs for breakfast the first day, but thereafter we go back to our regular ration of one egg per day and should the hen ever return to her normal status, we should have to forego breakfast for one day.

2. *Permanent increase* to the extent that we increase the productivity of the individual by either bettering his living

conditions or putting him in a frame of mind which induces him to work more steadily or harder.

Many of the arguments in favor of installment sales—such as that it has made mass production possible, reduced prices and created employment—are true only from the standpoint of some individual industry that has profited (justly perhaps, if the commodity produced is a necessity) at the expense of other industries. On the other hand, to the extent that the stimulation of production is temporary, the ultimate result may be harmful, as it may induce overproduction and consequently a serious reaction when demand again becomes normal. It is evident that only by increasing the total income of society can we permanently increase its total expenditures.

Since installment sales are undoubtedly here to stay, the questions that present themselves are: Are we proceeding along the right lines? Have we gone too far?

I am inclined to the opinion that we have reached the point in some cases where the interests of the individual do not run parallel to those of society as a whole. The first and second phases of installment selling, which I described, were doubtless beneficial, but the third—in which business men are crowding into the installment field because they fear the loss of business in their particular line, and the diversion of sales to other lines—is bringing about an extension of the installment sales method into unsound channels.

Have we gone too far? Since the method has not passed through a complete cycle and since only experience can furnish the answer, we shall be in a better position to judge the matter when we have passed through the next period of business depression and unemployment. It is estimated that all funded debts in the form of federal, municipal and corporate bonds, mortgages, etc., amount to approximately one hundred billions of dollars and that bank debts amount to about thirty billions. We thus arrive at a total of about one hundred and thirty billions for the amount that one class of people in this country is lending the other. Estimating the amount of money advanced by the lending class to the other in the form of installment debt is difficult. Estimates of the volume of installment sales range from seven to ten billions per annum. A committee of the American Bankers Asso-

ciation, after a careful survey of such part of the field as furnished reliable information, estimated that about forty-two per cent of the annual sales is outstanding at any one time. This is considered by many to be quite a low estimate, but, using it as a basis, we arrive at a figure somewhere between three and four and a half billions as the amount outstanding at present. Some excellent authorities estimate the amount outstanding at five billions.

If we accept the latter figure and compare it with the total debts of all kinds amounting to one hundred and thirty billions, it does not seem important. But I am certain that the majority will agree that this is not the proper method of judging the position occupied by installment sales in our credit structure. A better method is to compare it with the thirty billions of bank, i. e., current debt. This, while nearer the truth, has the defect that it does not take into consideration the extent to which these installment debts have been funded by means of the capital stock and long-term bonds of the finance companies. Nevertheless, after liberally allowing for this, it is evident that installment sales have become a very important factor in our current credit structure.

The total retail sales of the country are estimated at about forty billions. Of this seven to ten billions are estimated to represent installment sales; certainly an impressive proportion. We have no means of knowing to what extent installment credit is merely a shift from other forms of credit formerly granted. A survey by the Federal Reserve Bank of Boston of the sales by Boston department stores indicated no material decline in the volume of regular credit sales after the inauguration of a "budget" or installment method. The latter seemed to create an additional volume of credit sales and not a shift from the former. Of course this survey of one section must not be accepted as a conclusive index of conditions in all parts of our country, but it is the result of a careful investigation by a disinterested agency and entitled to full consideration.

In conclusion it seems that during the present experimental stage, the business of installment sales must be carefully watched by all concerned. We must take a comprehensive view of its present status and the direction in which it is moving. Practices arising out of the desires or necessities of

individual firms or trades that do not harmonize with the good of the whole and are therefore fundamentally unsound must be discouraged. When, in legitimate lines of business, expansion seems to have reached the limits of safety, the brakes should be firmly applied.

All this requires a careful scrutiny of the methods and volume in each individual case and the application of proper remedies where necessary by the finance companies. In turn the policies of each individual finance company must be studied by the banks. A recognition of the fact that installment selling has a legitimate field within the limits of which it is entitled to every consideration, coupled with the cooperation of merchants, finance companies and the banks to keep it within such limits, will do much to prevent the serious results that otherwise might be expected.

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CONTROL OF TRADE PRACTICES BY COMPETITIVE AND OTHER FORCES

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Introduction

THE industrial world appears to be swinging round a huge historical spiral, from medieval moral standards and controls through an unmoral period and a period of *laissez-faire* morals, back to something far more like the medieval attitude, though on an altered plane and a larger scale, and with different standards and agencies. In medieval times the economic unit was small; it recognized itself as a community and acknowledged and enforced appropriate responsibilities on its members by the forces of church, guild and state. The morality was based largely on an acceptance of the standard of living customarily suited to one's station in life: hence it was neither democratic nor progressive. It broke up with the coming of modern times and there followed a period of predatory, monarchic nationalism and after it a more enlightened period of liberty and *laissez-faire*, during which the progress of methods has made us so interdependent that we are in process of being forced, whether we like it or not, to organize our economic life into the form of a real community again. This new community is large, transcending the bounds of nations, and its morals cannot be merely customary, for it is making new customs every day. They must be democratic, voluntaristic, elastic enough to adjust themselves to rapid and unforeseeable change; and yet they must contain more binding standards of economic conduct and more positive mutual obligations than *laissez-faire* could furnish.

1. The evolution of "free" exchange

Business transactions are of so many sorts that the attempt to describe them all by one simple theory of "free" exchange is necessarily a failure. First, we have simultaneous ex-

changes of goods—the sort of thing to which the idea of “free” exchange most nearly applies. But also there are agreements setting up continuing relationships: of employer and employee, landlord and tenant, debtor and creditor, and variants on these types. And these agreements are far more complex affairs than one ordinarily thinks. There is the “heart of the contract”—to borrow Justice Sutherland’s phrase¹—consisting simply of the meeting of minds on the main features of the exchange: amount and kind of goods to be transferred, and amount and time of money compensation. But grouped around this are many other conditions and stipulations and incidental consequences, often of vital importance, but seldom scrutinized and made the objects of definite bargaining effort by the ordinary individual bargainer. Such are the “conditions” of labor, and the ultimate provisions for enforcement of credit obligations.

Matters of these sorts are usually either handled according to the custom of the trade, or by a standardized contract, usually on a printed form drawn up and supplied by one of the parties, who invites the other to “sign on the dotted line”. In such cases there is generally no effective bargaining over these conditions; all the more so if, as often happens, the entire trade agrees on a standard form, or uses similar forms by an informal understanding, so that there is no competition in these matters. Such contracts are essentially monopolistic as to their standardized portions, and the individual is under real compulsion to accept their terms. It is, on the whole, desirable that contracts of this sort should be standardized. Indeed, it has often been noted that unlimited competition may virtually force the producer into unsound practices, such as overextension of credit, which are not for the good of the buyer in the long run. But it is not desirable that the standardization should be done entirely by one side of the transaction and in the interest of that side alone. Such contracts should properly be considered as “affected with a public interest”, and should be framed with just consideration of the needs of all parties concerned.

Even in simple sales of commodities there are often im-

¹Used in the District of Columbia Minimum Wage Case (*Adkins v. Children's Hospital*).

portant surrounding conditions, such as provisions for service to machines and for rejection or return of goods. And even in the "heart of the contract" there may be things which free bargaining does not safely handle, such as the standards of safety in building construction, wiring, etc., which are often invisible and of which the individual is not in a position to judge effectively, even if he is competent, as he usually is not. Thus in many ways unregulated competition is not an adequate safeguard for the interests of the contracting parties, or for other interests which may be affected in one way or another.

In fact, "unregulated competition" is really a contradiction in terms, since business competition is in its very essence a regulated struggle; otherwise it would not be competition, but warfare. Competition is limited, most obviously, by the law: chiefly the definition and protection of rights of person and property, which bar out the most clearly and grossly predatory tactics. But the law itself is largely built upon the customs of the community, and is constantly supplemented by other customs not embodied in formal law. The expressions "cutthroat competition," "predatory competition", "unfair competition", and "lowered plane of competition" suggest dangers which require safeguards beyond those which the basic law furnishes.

There is a clear convenience in letting the trade do its own controlling, but there is also a danger that this may lead to quasi-monopoly and to prejudicing the interests of customers. It may extend to matters which should not be controlled by the trade alone, and in which the other parties should have the benefits either of competition or of a voice in the settlement of the standard terms and conditions. Competition is not expected to be made comfortable for the competitors, or safe for the less efficient among them, and self-regulation would have an almost inevitable tendency to make competition altogether too safe for the competitors, protecting them against legitimate rivalry, and framing contracts so as to resolve every doubt in favor of the trade. There may be numerous matters in which regulation wisely conceived in the interest of the trade will also be in harmony with the essential interests of the other parties; but this is not to be taken for granted without ex-

amination of each particular case. Sunday closing is, in general, in the interest of the trade without sacrificing any interest of the customers which is essential enough to justify a reversal of the policy; but there may be emergency needs for which some provision should be made.

Control nearly always focuses in some organization, and unorganized control has little chance of effectiveness. The public interest is most definitely organized in the state, and the trade interest in the trade association, which is coming to play a more and more important part in caring for the common interests of almost every trade. These associations are becoming the vehicles for formulating codes of trade ethics, and have even been invited to work with the Federal Trade Commission in drawing up standards of fair practice, to which the general law of unfair competition may subsequently be applied. Another potent source of trade discipline is the credit system which, by its weapon of credit ratings, may censor unsound practices quite effectively. Other possible foci include labor organizations, the Consumers' League, and other civic and scientific organizations.

If a trade refuses to control itself or exerts control in its own interests alone, the government may be forced to step in. But if the trade not only controls itself but invites the other interests to a real share in the work, then government action may be avoided except, perhaps, to reinforce the standards which the most representative members of the trade are already desirous of carrying out.

2. Application to installment buying

To apply these rather general remarks to the topic immediately at hand, we may ask whether installment buying should be left to unregulated competition or not: whether the terms of the contracts should be standardized, and if so, what parties should be heard and what interests should be safeguarded. There is very little likelihood that the matter will be left wholly to unregulated competition. The finance company, which discounts the accounts of those who have sold goods on time, has a direct interest in preventing unsound extensions of credit, and can exert disciplinary force on individual traders. And finance companies can easily get to-

gether sufficiently to form standards of practice which all shall apply. Powerful independent producers will probably always be able to finance their own installment sales and to decide their own terms and eligibility requirements, and this fact may serve to keep the standards of the finance companies in touch with some real competition, so that the actual outcome will probably be a mixed situation.

What are the dangers of installment buying? Old-fashioned thrift held up its hands in horror at any scheme whereby people were urged to buy expensive luxuries without having the money to pay for them on the spot, or to start housekeeping without having at least saved up the first cost of furniture and equipment. But now many of us have embraced the monster, and most of the rest are reaching a stage of open-mindedness at which it may be possible to discriminate between genuine dangers and a mere shock to our Victorian prejudices. We have become aware that the growth of installment buying need not be incompatible with the growth of thrift, even in the same persons. Indeed, the agencies of thrift are themselves making successful use of the installment principle. Nevertheless there are cases like one of which I was recently told, in which the carpet was sold off the floor to pay the second installment on the automobile—a Buick! And it is still a healthy principle that people should demonstrate some power to save before taking on large added expenses. If they cannot save at a lower level of expense, they will not be likely to succeed in meeting the payments without making sacrifices that should not be made. So the maxim might be laid down: “never buy on the installment plan unless you could pay cash”—making exception for genuinely productive goods or absolute necessities. For other kinds of purchases the maxim expresses a rough and ready index of ability to handle the payments without disaster to the budget. One reason why such cautions are called for is because most people have a bias by which the burden of a given payment looks much lighter if it can be distributed in small installments, and the installment salesman takes pains to cultivate this bias. And the penalty for an error—forfeiture of the goods when partly paid for—is more serious than the usual penalty for a miscalculation. There is also the danger of paying exorbitant interest rates in a concealed form.

There are, of course, dangers to the trade as well as to the purchaser. They must see that they do not lose money in case of forfeiture under ordinary conditions; and they must guard against the risk that a general depression will make a large proportion of their accounts bad, while at the same time undermining the value of their security. We do not need to have serious apprehension that these dangers will not be sufficiently well guarded against.

The services of installment buying are probably not as generally understood as its dangers. It enables persons to buy goods they could not otherwise buy, and sell goods they could not otherwise sell, and many would not question further. A more rational justification is that it makes possible the spreading out of certain heavy expenditures which come irregularly. The automobile owner, figuring the monthly cost of operating his car, charges, not the entire capital cost, but one-twelfth of the annual depreciation: he reckons the cost in installments whether he pays it in installments or not. Paying by installments, he will pay more nearly as he reckons (though of course the two will still be far from equal and synchronous). He will not have to save up the entire price, investing it temporarily and then disposing of the investments; and if he has already saved up this much and wishes to keep it as capital, he is not forced to sell it in order to buy the car. In short, he is enabled to treat the purchase as a peculiar form of capital expenditure, and to amortize it. This is a clear advantage—for expenditures that properly belong in this class.

But what purchases are entitled to this rating? This is a very interesting question. The essence of an industrial capital expense is that it goes into a long-lived asset which is productive, and can normally pay for itself during its lifetime. If we are to apply these ideas to the expenses of consumers we must, of course, broaden them to include as productive things which do not yield a direct money profit, but do serve to increase the general effectiveness of those who use them. Public improvements are in this class, and it may be extended to cover some uses of the automobile, and many household conveniences. But with public works there is a growing feeling against installment buying and in favor of a "pay as you go" policy. This is put on the ground that these expenses keep

on in a fairly constant flow, so that installment buying does not yield the service of distributing an outlay which would otherwise be unduly concentrated, but merely makes the cost lighter for awhile and then permanently heavier by the constant drain of interest payments. Quite the same would be true of a private individual who contracted the installment habit in a chronic form. Thus the crux of the matter would seem to lie, not in the productive character of the expenditure, but in its irregularity, throwing out the even flow of the budget unless distributed over a period of time.

Another service which is credited to installment buying is the cheapening of production through the larger output which can thereby find a market, the automobile industry being urged as a conspicuous example. *Prima facie* probabilities seem to favor this claim, but there is little doubt that, in the minds of those who urge it, the savings are exaggerated. Account should also be taken of corresponding losses in the industries from which the consumer's money is diverted by the calls of the installment collector. Thus the savings must be discounted, though there probably remains a net increase in the tendency toward concentration of production, resulting from installment buying.

This leads us to another claim, resting on the idea that installment buying does not merely divert money which would otherwise be spent for other things, but actually makes a net addition to the flow of production and consumption. If this is the case, the practice may be productive for industry as a whole, even if not for the individual buyer. This raises a nice question of economic theory. We are accustomed to say that supply of one thing constitutes demand for something else, and that therefore supply—of the right things—creates its own demand. This undoubtedly has truth in the long run, and explains why our enormous increases of productive power have found a market and have not merely resulted in a proportionate amount of unemployment. But there is a critical stage in the process, when enlarged productive power has not yet found its market and when the potential desire for goods has not yet been translated into effective demand. Perhaps it cannot be so translated until the product is actually made and the resulting costs and profits

distributed to the participants, and this cannot happen until a considerable part of the goods are sold and the earnings realized by the producers; and thus a deadlock exists. It seems probable that installment buying can help an industry over this deadlock and facilitate the complex adjustments whereby sudden and large increases in productive power become converted into actual, realized product, turning back its income to swell the flow of effective demand for goods.

This is a doctrine to be accepted tentatively and with much caution. It sounds like proving that all we have to do to get rich is to spend money we do not possess, with the result that there is more money for everyone to spend. This is too good to be true as a universal rule, and the utmost that a skeptical economist should be ready to concede at present is that there may be conditions of transition under which the magic will work.

Other more specific matters also raise questions of public policy. Customers should be selected from among those who are capable of using this dangerous device without being exploited by it. Initial payments should be substantial, and the period of credit limited well within the useful life of the goods. Rates of interest should be kept within bounds and, preferably, indicated in the contract. Forfeitures should be few. And the question should be seriously discussed whether a defaulting purchaser should not have rights analogous to the surrender value of a life-insurance policy—that he should not always lose all he has paid, but might receive a rebate after the seller has been fully reimbursed. All these matters should receive disinterested consideration by bodies representative of all the interests involved.

INSTALLMENT PURCHASING AND INSTALLMENT SAVING IN RELATION TO FAMILY WELFARE

LAWSON PURDY

Secretary, Charity Organization Society of the City of New York

THE subject of installment buying is a very large subject with many implications, and I shall attempt to deal with it almost exclusively from the standpoint of the Charity Organization Society as it affects the 3500 New York families from which the Society has received appeals for advice or financial aid.

• All sorts of people buy on the installment plan—rich and poor, prudent and imprudent, people with stable characters and people without. There are all sorts of people selling goods on the installment plan. Installment buying has its advantages and its disadvantages, dependent, first, upon the people who buy and, second, upon the people who sell. It is reasonably clear that there is danger when the seller of goods is, at the same time, a seller of credit. In general, the seller of goods should be concerned exclusively with meeting the demand for the goods he has for sale. He should honestly represent those goods for what they are and the price of the goods for what it is. He should desire to get new customers and keep the old ones. It is to his interest to satisfy his customers both as to quality and price. The salesman should be sufficiently discerning not to force upon a customer goods that the customer does not need and with which he ultimately will be dissatisfied. Beyond that the responsibility of the salesman goes no further if the customer pays in cash.

A person who lends money is concerned primarily with the ability of his customer to pay and naturally he will lend no more than he believes the customer can pay. The lender charges for the accommodation a sum sufficient to pay all costs of the transaction and interest on the investment.

When goods are sold on the installment plan these two entirely different business operations are conducted by the same person and there is danger that the seller, in his desire

to sell goods, will at the same time extend credit which is beyond the capacity of the buyer to pay, and the seller is tempted to induce the buyer to take goods not suited to his purse nor his station in life, and so impose an undue burden upon the purchaser.

Again, the cost of conducting the business of lending money must be included in the price of the goods and is frequently so concealed in the price of the goods that the purchaser is deceived as to what he is really paying for.

My society operates through nine district offices in the Borough of Manhattan and I asked the head of each one of those offices to give me her personal experience of the effect of installment buying upon the persons with whom she is acquainted. Without exception their replies were to the effect that the disadvantages exceeded any advantages; that articles are sold for much more than their actual worth; many things so purchased, particularly clothing, are worn out before they are paid for; articles that are not needed and ill afforded are frequently purchased, or a more expensive variety of a required article is purchased because of good advertising, and the easy payment method seems easy until tried. The realization of a constant debt is injurious coupled with the fear that things partly paid for may be lost through non-payment. Persons are encouraged to live beyond their income. Articles which for these particular persons are luxuries are purchased instead of necessities. When trouble comes the first thing that is dropped is the payment on account of the thing purchased on the installment plan. Instead of going to the dealer and stating the case fairly, the debtor frequently refuses to answer the door, tries to sell the goods sometimes, or put the goods in storage, or in other ways cheat the seller. In the case of furniture, if it is eventually taken there is hard feeling. They think they have put their money in it and do not realize that often they have had full value by paying rent for the furniture they have used.

The "X" family, very nice American people, came here three years ago. To avoid transportation expense they sold the furniture they had had and equipped a five-room apartment here on the installment plan. The breadwinner became ill just as the sixth child came. The family lost everything including three years' or more regular payments on furniture.

In another case a young couple were helped to re-establish a home. They were referred to a second-hand shop of the Salvation Army, bought what was necessary for \$24, and the young man said, "Why didn't I know of this before! I bought \$250 worth of goods and lost every bit of it because I did not have the money to keep up the payments regularly. Now I know that I can gradually get what I need and that it will be mine forever."

It would be neither just nor expedient to stop here. We have examples in this city of dealers who have been in business for many years and who to a degree separate the problem of selling from the problem of lending money by establishing separate departments for these two functions. I have been aided in my inquiry by the house of Cowperthwait and Sons with a record of one hundred twenty years of business in the same family and sixty years of business in selling furniture on the installment plan. Their salesmen are instructed not to sell goods to an amount greater than it appears that the customer can fairly take. After the customer has made his selection he goes to another department which is concerned exclusively with his capacity to pay, and they must be satisfied with the capacity to pay before the order is approved. They sell goods for cash for 10 per cent less than when the payments are made over a period of eighty weeks. They think that difference of 10 per cent compensates them for all costs of collection and interest on the money. They come to this conclusion by comparing their goods with the goods of others who sell for cash. They say their losses on account of failure to pay for goods are small.

The house of Ludwig Baumann and Company has very kindly given me testimony which is similar to that I received from Cowperthwait.

We know in our experience that there are cases of families known to us in which it has been an advantage to buy necessary articles for which they did not have the money and that they have been encouraged to save by making their payments on the installment plan.

Certain things appear to me to be demonstrated by my brief inquiry. First, the business of selling goods and the business of extending credit should be divorced as far as pos-

sible. The cost of credit should be distinguished from the cost of the goods so that the buyer has no illusions about how much of the price is for the goods and how much is for the credit. The charge for the credit should be sufficient to meet the burden of expense.

Lastly, there will always be careless sellers and careless buyers and there is only one successful teacher, and that is experience. Whatever we do, let the government keep its hands off!

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THE BASIC MEANING OF THE GROWTH OF INSTALLMENT SELLING¹

WILLIAM TRUFANT FOSTER

Director, Pollak Foundation for Economic Research

WHAT is the basic meaning of the extraordinary growth of installment selling which has taken place during the past ten years? It is this: *In a period of increasing productivity, industry turns out more consumers' goods than consumers can buy with their incomes.* That is the bed-rock fact. Any discussion of the subject which fails to take that fact into account is superficial. To overlook it is like making permanent plans for the traffic of a city on the assumption that the traffic does not increase, or on the assumption that each additional motor car brings with it its own parking space.

As a matter of fact, the piling-up of stocks that cannot be sold for cash, without a fall in prices, is a normal phase of business expansion. It comes about because industry does not pay consumers as much money as it expects consumers to pay for its products—as much money as consumers *must* pay if business is to expand and prosper. In other words, business is conducted at a profit. Consumers, moreover, have no source of income other than industry. Consequently, as the flow of goods into consumers' markets increases, the flow of money into consumers' pockets does not long increase proportionately. Presently, there are more goods on hand than the people can buy and pay for out of income, at the going price-level.

To take these goods away at current prices, therefore, consumers must spend enough of their savings to make up the deficiency of current income. That, however, consumers in the aggregate never do. On the contrary, they constantly in-

¹ The theory which is here outlined is developed in more detail in *Business Without a Buyer*, a book by William Trufant Foster and Waddill Catchings, published by the Pollak Foundation for Economic Research, Newton 58, Massachusetts.

crease their savings, year in and year out, in war and in peace, in depression and in prosperity.

There are, then, these two main reasons why dealers cannot long continue to sell for cash, without a fall in the price-level, all the goods that are turned out: first, because industry does not disburse to consumers—as wages, interest, dividends, rent, and the rest—enough money to buy its products; second, because consumers, under the necessity of saving, do not spend even as much as they receive. Since, therefore, consumers cannot buy the goods with their current income, industry has resorted more and more to the device of handing them the goods, to be paid for out of future income.

If such an explanation of the remarkable growth of installment selling sounds like nothing but theory, and obscure theory at that, the facts themselves are plain enough. Nobody needs to delve into theory in order to find out what is going on. Take the facts in the automobile trade, for example. Nobody doubts that in 1925 this country alone turned out more than four million passenger cars and trucks. There are the cars, actually produced. The next concrete fact concerning which there is no dispute is that cars were sold in 1925 to the retail value of more than four billion dollars, with only about one third of that amount paid down. In 1926, the total figures were larger, but the proportions remained about the same. Consequently, there are now several million cars in the hands of consumers, on which at least one billion and a half of payments are still to be made.

Automobiles, moreover, are only one of innumerable commodities that are now sold on easy payments. To be sure, we have not yet been urged to buy chewing gum for a penny down and a penny a day, on the ground that, since it may last a week, we ought to buy it out of income instead of out of capital. "Chew as you pay" is one of the slogans which even the tobacco people have spared us. Many millions of consumers, however, have already bought dresses and rings and parlor sets on partial payments, not to mention kitchenware, pianos, refrigerators, oil heaters, table cloths, radio sets, and the rest. The Simple Simons of our day do not have to contend with many unprogressive Pie-men. "Show me first your penny" is not the slogan of the most rapidly expanding new industries.

The actual sales price of fifteen kinds of commodities, bought on partial payment plans in the year 1926, appears to have been about six and one half billion dollars. Of that amount, the actual installment debt outstanding at any one time, with allowance for overdue accounts, must have been over forty per cent. So there must be in the possession of consumers at this moment, goods to the retail value of not far from three billion dollars, exclusive of securities, real estate and houses, which have not been paid for.

The plainest fact in the whole situation is that those goods actually were produced. Nobody needs an imposing array of graphs and statistics to convince him of that fact. Equally plain—at least to those who have to do the selling—is the fact that a large part of those goods would not have been sold at all, had buyers been required to pay cash for them. And just as plain, to any one who has studied the statistics of consumer income, is the fact that the people who bought those goods *could not possibly* have paid for them out of income.

That, however, is not the whole story. Had we not contrived to pass on to consumers about three billion dollars' worth of goods in excess of what they have yet paid for, most of those goods would not have been produced at all. Now, the people are perfectly able and willing to make the goods. That, as we have said, is the plainest of all facts. The people not only can, but actually do, make more motor cars, furniture, fur coats, washing machines, refrigerators, and no end of other commodities than they have the income to pay for. Nevertheless, in spite of this unquestioned ability and willingness of the workers, they would not have been allowed to make those goods, if the people who wanted to buy them had not been permitted to buy them on credit. In that case, a large part of the wages and dividends paid in connection with the production and sale of those goods, would not have been paid at all.

From these plain facts, we come to this plain conclusion: the expansion of installment selling has saved the country, up to this time, from a marked business recession. There is no doubt that industry has been more prosperous during the past four years, the volume of employment and production larger, and the national income and standard of living higher,

than would have been the case had it not been for installment selling.

Does any one question that conclusion? If so, let him consider what would have happened if three, or even one, billion dollars' worth of goods, which are now in consumers' hands and unpaid for, had not been made, or if a large part of these goods had been made and left in the hands of manufacturers and merchants. Would anything have prevented a chilling fall in prices? As a matter of fact, not even the huge installment sales of 1925 and 1926 prevented a sustained decline in the commodity price-level.

It is true that partial payment sales to consumers are only a small part of the total business of the country which is conducted on credit. We miss the point, however, unless we observe that installment sales have been increased by means of bank credit which is extended on the *consumer* side, whereas nearly all bank credit was formerly extended to business on the *production* side. To call two things "inflation" which are diametrically opposite, does not make them the same. Overstocking dealers' shelves on credit is far different from overstocking consumers' households on credit. In point of fact, an expansion of credit which results in a net increase in *retail sales* helps to render harmless, for the time being, an expansion of credit which results in a net increase of *output*.

We come now to the most important question of all: How much longer can installment selling delay a business recession? It may help you to answer that question if you will try to figure out how long you, yourself, could help to lift business to higher levels by increasing your installment buying. Let us suppose that in a given period of time, you can buy goods to the value of \$10,000, and you can buy no more unless you increase your installment purchases. Let us suppose, however, that an alluring offer of "dignified credit" leads you to buy an automobile, to be paid for "out of income, rather than out of capital." The deferred payments amount to \$1,000. For the period of time in question, therefore, your purchases are \$11,000. That is \$1,000 more than they would have been otherwise. You have done that much to increase the total sales of the country and to stimulate business.

In the next period of time, however, you must reduce your

cash purchases to \$9,000 in order to pay \$1,000 on your car. Clearly, then, you cannot continue buying at the \$11,000 level, unless you mortgage—no longer \$1,000—but \$2,000 of your future income. If you do so, the result will be that in the next period of time, you will have only \$8,000 to spend for goods. You can sustain your rate of buying in that period, therefore, only by committing yourself to \$3,000 of deferred payments. And so on. At that rate, how long could *your* installment buying help to keep business prosperous?

Now add to those budget figures the figures of all the other consumers who have boosted business by increasing their installment buying, and you see that consumers as a whole, having in one period lifted their buying to a higher level by increasing their debts on installment purchases, cannot even maintain that level of buying in the next period without doubling their debts; in the next period trebling their debts; and so on.

It is merely putting the same conclusion in other words to say that, if consumers improve business in one year by mortgaging their incomes, on the average, *one* month in advance, they can sustain business at that level, by that method, the next year, only by mortgaging their incomes *two* months in advance, the next year *three* months in advance, and so on.

There are differences of opinion as to how far into the future it is wise to carry that process; but no one who can master the mysteries of first grade arithmetic need deceive himself with the idea that the possibilities are unlimited.

Here the question may arise whether we ourselves understand the arithmetic of this case. Have we not made a crucial error? In our illustrations, we have assumed that the total income of consumers remains the same from year to year; whereas everybody knows that, if business expands with the expansion of installment sales, there may be an expansion of the money in circulation and of the income of consumers.

Such an expansion of money, it is often said, "automatically provides consumers with enough money to buy the expanded output." If that were true, the improvement of business which is brought about by the stimulus of a given increase in installment selling might be permanent. But it is not true. A moment's thought will show that the financing of installment

sales does not put into consumers' hands *enough* money to buy the goods in question, for additions to the volume of money which are made in connection with financing the production and sale of a given volume of goods are seldom large enough to cover the retail price of those goods.

That is necessarily so. Every individual piece of financing, whether to assist installment business or any other business, proceeds on the assumption that more money is to be received from consumers eventually for a given volume of goods than the banks advance in connection with the goods. If these expectations are not largely realized, a recession of business follows.

As a matter of fact, no producer pays out as costs, as much as he expects people to pay for the product—as much as they *must* pay if he is long to continue in business. In other words, he does not borrow and pay out in connection with a given expansion of output, as much money as consumers must pay for the output, if he is to make a profit. Consequently, the increased wages and other payments—that is to say, the total costs which are paid as a result of increased sales on installments—are insufficient to enable people to buy the increased output. Thus it is clear that sales on installments do not “automatically” enable people to pay for the goods in question. The goods increase faster than the income. The gap between the two widens. The “automatic” feature of the process is its culmination in a recession of business.

We conclude, then, that those who oppose installment selling are right in objecting to a solution of the problem of inadequate consumer demand which puts consumers deeper and deeper into debt.

Installment selling, moreover, cannot long do as much to *increase* prosperity, as it has done in recent years. The chief error of those who hold that it can, lurks in their assumption that if consumers go into debt three billion dollars in order to acquire certain commodities, industry will necessarily pay them an additional three billion dollars as wages, dividends, and the rest, wherewith the debts can be paid. The process is supposed to be self-sustaining—automatically so. It is not. The financing of increased production, as we have shown, does not “automatically” induce a flow of money into consumers'

pockets which is equal to the flow of goods into consumers' markets. Hence the stimulus to business of a given gain in production, brought about by a given gain in installment sales, is not lasting. Larger and larger doses of the stimulant must be injected merely to prevent a relapse.

If that were not so, business would not have been obliged, in the first place, to resort so largely to increased installment selling, in order to distribute its current output at current prices. The circuit flow of money by means of which installment selling is supposed to maintain adequate consumer demand would have yielded consumers enough income for the purpose, without resort to installment selling. Each addition to supply would have created its own demand. For example, the very increase in bank credit which enabled industry to turn out a million more cars would have given people enough additional income to buy the cars. In short, the self-sustaining process would have functioned without a piling up of consumer debts. The reason it did not so function is that—contrary to traditional economic theory—a given supply does not produce an equivalent demand.

On the other hand, those who favor installment selling are right in holding that production should not be curtailed, and workers thrown out of employment, and standards of living thereby lowered, for the sole reason that the people who want more goods do not have enough income to buy the increased output of prosperous business. Whatever the evils of partial payment selling may be, it is better for us to acquire goods on partial payments than not to acquire goods at all, simply because we have not been permitted to make them. Something must be done, more than we have done in the past, to enable the people, as consumers, to acquire and enjoy whatever they succeed, as producers, in getting ready to be enjoyed. To our exceedingly efficient system for financing production, we must somehow add an equally efficient system for financing consumption. We must find some means of doing permanently, on a thoroughly satisfactory basis, what increased installment selling has been doing temporarily, on a questionable basis. The way will not be difficult to find, once we are convinced that it must be found.

THE DEVELOPMENT OF INSTALLMENT PURCHASING

JOHN J. RASKOB

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UNDOUBTEDLY little new can be added to the thorough discussion which installment purchasing has received during the past year. Perhaps this paper will be more interesting if it is confined to opinions formed and lessons learned as a result of a considerable practical experience in the granting of *consumers' credits* to automobile purchasers; but first let us for a moment trace the development of *producers' credit* in our country. As E. R. A. Seligman, Professor of Political Economy, Columbia University, has said:

The early part of the nineteenth century was marked by the most extravagant distrust of banks—a distrust often justified by the sad results of early banking—first in New England, then in the Middle States, and finally in the West.

This early opposition to bank credit only slowly disappeared, until today it may be said that the entire business structure is built upon the foundation of credit; and that the banks have become the very center of our economic life. The abuses have been lopped off one by one and no one any longer doubts the effective contributions of our modern banking machinery to the maintenance and development of production.

The improvements that have been gradually made in bank credit are in large part the result of careful study and protracted experience. With every advance in the complexity of modern industrial life it has become possible to make a more detailed analysis of the interrelations of the various factors of credit. The successful banker today must be to a far greater extent than at any past period a man with adequate training and sufficient imagination to comprehend the influence of all the various elements in the problem. Banking today has become not only an art, but a science; with the result that our understanding of the scope, the functions, and the limitations of bank credit has reached a point where we can with considerable success distinguish between the use and the abuse of the institution. The result is that the bank, as an instrument of production credit, is now universally recognized as an integral and necessary part of modern economic machinery.

The most recent development in credit is its utilization to secure more durable goods for immediate consumption. The original form of this category of credit is found in the case of houses. For several generations now and especially in the United States home buying on the installment plan has become familiar to all. With the progress of the movement this form of credit was gradually extended to other commodities. A system of installment buying was applied to sewing machines, then to pianos, then to agricultural implements—still more recently to automobiles.¹

As in the case of most new developments, consumers' credit, in its rapid growth, has left in its wake various instances of misapplication and abuse which no one could conscientiously defend, but which serve to inspire criticism of the system as a whole. However, this situation is being corrected in the natural course of evolution.

From an economic point of view, is there any reason why the people of any country should not have all of the comforts that they are able and willing to produce?

Usually, before a thing is purchased, there must be an incentive to purchase it—an incentive which is born of a desire to have that thing. For instance, we produce food and clothing because the desire to keep from going hungry and cold is sufficient incentive to do the work necessary for such production. Love is an incentive to work, to produce and to secure those things which tend to the happiness of a family.

Aside from food, clothing and shelter, there is perhaps no greater or more insistent demand for anything than for automobiles—a demand which is prompted by the strong desire of mankind to go on wheels and to go fast. The desire to have automobiles is sufficiently great to inspire people to work, provided that through working this desire can be satisfied. Given, therefore, the desire to have an automobile and the willingness to work for it, we have only to supply the automobile on an economic basis and a practical means to purchase it. This latter means is afforded by the installment purchase plan.

Since a purchaser may not be able to purchase a given article unless he can pay in installments, the arrangement of the payments is vital to his purchase. A merchant, however, in selling goods on credit will make, or refuse to make, the

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sale, depending entirely upon whether he is willing to extend credit to his customer; whether the credit is to be liquidated in a single sum or in a series of installments is only one of the factors to be considered. If the merchant's investigation of the purchaser indicates that the latter is entitled to credit, the former will make the sale, and the fact that the purchaser may pay in installments would affect only one of the credit factors—that of the purchaser's ability to pay. I hope that the distinction is clear that in the development of sound consumers' credit, installments are simply the arrangement of the payments, while the fact that a purchaser is *willing* to obligate himself to pay in installments is in itself no reason for granting the credit. In reaching the decision to grant consumers' credit, regardless of the arrangement for the payment, the factors present are of the same kind as those which guide bankers in extending commercial credit. *In the proper appraisal of credit factors lies the whole foundation of consumers' credits.* Will merchants and bankers so administer the granting of consumers' credits that it will result in abuses and in encouraging consumers to buy all sorts of things which they really do not want, and many of which will be obsolete or worn out before payment is completed; or will they so administer it as to make the result an economic gain?

Because of the reason mentioned at the outset and also because of the fact that modern installment selling finds its chief application in the automobile industry, I shall venture to illustrate my general point by reference to our own experience. This experience clearly indicates that credit merchandising is constructive if properly used and not abused, and that consumers' credit so extended is wholesome and in every way desirable from an economic standpoint.

Many people feel that this is true, but ask what constitutes use as distinguished from abuse. It is difficult to indicate how far a banker or merchant may legitimately go in extending consumers' credit before bordering on abuse. Previous to 1919, most automobiles were sold on a cash basis. We recognized, however, that if the industry was to be as successful as we felt it should be, it would be necessary to sell automobiles on credit. With a view, therefore, to controlling properly the extension of consumers' credits and in order to learn by

practical experience what constitutes use and abuse, we organized the General Motors Acceptance Corporation in 1919 with an initial capital and surplus of \$2,500,000. To-day only twenty out of upwards of nearly thirty thousand banks in the United States have capital, surplus and undivided profits in excess of \$30,200,000, which the General Motors Acceptance Corporation now employs.

Its experience and results have been attained under the following general rules and regulations:

First. It may be interesting to call attention to the fact that in a few states, including New York, organizations like ours, which deal with consumers' credits, are required to operate under the banking laws.

Second. It functions in a manner completely independent of the sales and operating divisions of the General Motors Corporation, so that the judgment of its credit men in the extension of credit cannot be influenced or overridden by an overzealous sales department.

Third. The credit granted is in a reasonable relation to the purchaser's circumstances; the terms must represent the minimum accommodation which the purchaser needs, based in each instance upon a careful analysis; terms consisting of a certain down payment in cash and a fixed period of time for the balance are never arbitrarily assumed to constitute a good credit nor quoted to any seeker of credit in advance of any knowledge of his character, ability and willingness to pay.

Fourth. The dealer making the sale must accept responsibility for the purchaser's obligation through either endorsement or guarantee. This is in line with traditional practice underlying merchandising of goods in all trades. This endorsement or guarantee is perhaps the most vital factor in the direction of eliminating abuses in the extension of consumers' credits. No one can possibly have as intelligent a conception of the purchaser's character, ability and willingness to pay as the dealer whose endorsement or guarantee underwrites his judgment of the purchaser's character. While the physical security or collateral for credit is important, we should never permit ourselves to forget that *character* is the foundation of all credit. He is a poor banker who does not recognize character as the first essential of credit; and this applies as importantly to consumers' as to producers' credit.

The late J. Pierpont Morgan testified in the Money Trust Investigation in 1912 that the first thing necessary to commercial credit is character; it comes before money or property, and money cannot buy it; that he knew many business men who could borrow any amount not because they had money back of them, but because people believed in them; that he had known a man to come into his office and receive a check for a million dollars when he knew the man had not a cent in the world, whereas a man whom he did not trust could not get money from him on all the bonds in Christendom. When asked whether this was the rule all over the world, he replied: "I think that is the fundamental basis of business."

How little the opponents of consumers' credit appreciate the fact that the inherent honesty and character of our wage earners constitute the great foundation upon which consumers' credit rests!

Now let us look at the results of General Motors Acceptance Corporation's operations over the past seven years. During the years 1922, 1923 and 1924 it purchased consumers' obligations aggregating \$278,223,000. All of these have been paid except \$238,073, representing bad-debt losses. This loss is under $1/12$ of 1%. It is true that these cover three years of prosperity, but few banks loaning money for producers' credit can point to as good a loss record for the same period. The 1925 and 1926 figures are not included because the experience is not yet completed, but the credit losses to date on \$444,573,000 of consumers' obligations purchased from January 1, 1925, to October 1, 1926, aggregate \$135,322, or about $1/30$ of 1%.

The depression of 1920-1921 came so soon after the formation of the General Motors Acceptance Corporation that its experience can hardly be taken to represent what may happen in another depression. However, the losses on \$96,407,000 of consumers' obligations purchased in 1919, 1920 and 1921 were \$744,310, or only $77/100$ of 1%. This is quite remarkable, considering the fact that the whole organization was new at that time and much of this loss can be directly attributed to lack of experience. It is also interesting to note that this record was made in a period of deflation, during which very substantial reductions were made in automobile prices, thus

materially affecting the value of our collateral. In connection with any period of depression or deflation it should be pointed out that the bulk of installment obligations held at any time liquidates very rapidly, thus escaping the usual effects of a protracted period of depression; for example, of the total consumers' obligations held, 36% would be liquidated in three months, 64% in six months and 85% in nine months.

From its inception in 1919 to October 1, 1926, there were purchased \$819,203,000 of consumers' obligations and the credit loss to October 1 on such obligations aggregates \$1,117,706, or about 1/7 of 1%. If we estimate possible losses on obligations not yet fully matured at \$375,000 (which is estimated in line with our experience to date) we have total bad debts of \$1,492,706, or less than 1/3 of 1%.

All of the foregoing figures concern only consumers' credits. The operations of General Motors Acceptance Corporation include also wholesale and foreign credits. The grand total of all its purchases from its inception in 1919 to October 1, 1926, aggregates \$1,572,858,000. Total credit losses to October 1 aggregate \$1,447,196. If we estimate possible losses on obligations not yet matured at \$400,000 (which estimate is in line with our experience to date) we have total estimated bad debts of \$1,847,196, or less than 1/8 of 1%.

You will naturally ask what the dealer's losses are on account of endorsement or guarantee of purchasers' obligations. The General Motors Acceptance Corporation's service charge includes an amount that is credited to dealers as a reserve to cover such losses. Of course, our books show no detailed record of dealers' losses on account of endorsement or guarantee, but we do know the above-mentioned reserves are more than sufficient to protect him. Periodic examination of dealers' accounts shows this. For instance, a survey of over 38,000 consumers' obligations purchased by one of our branches from August 1, 1925, to July 31, 1926, aggregating over \$22,000,000, shows that 271 cars were repossessed and that dealers' losses on said cars were less than \$5,000 up to that date.

The mere fact that consumption credit of the new kind, or installment buying, provokes criticism and arouses opposition, must not surprise us. Every form of credit had the same difficulties to meet at the beginning. It was only as the result

of long experience and careful analysis that what was sound in each form of credit was gradually differentiated from the unsound. Every phase of economic life has been attended by the addition of a new form of credit appropriate to its own conditions. Every great advance in the development of our nation has been first financed on credit and then paid for by the people in installments. Consumers' credit, paid in installments, is simply the adaptation of this principle to the individual's advance.

Let us return again to the purchaser. A banker has made this observation: "A man may be accustomed to spend all he gets and have nothing to show for it; he enters into an installment contract and still spending all he gets, he now has something to show for it. This converts him into a property owner and as a property owner he feels a new kind of self-respect and he also finds himself hungry for more property. It is said that in certain districts of the country, workmen formerly could earn wages enough to live on their accustomed scale by working only part of their time, so after the fourth or fifth day of the week they would quit and take holidays. But now this has been changed, for, with obligations under the installment plan, they find themselves in need of an income—an income to pay for articles they have undertaken to buy, which articles tend to bring them to a higher scale of living, and so the labor situation has been definitely improved through the installment plan. Now a man who has put aside so much a month for an automobile, a radio, a washing machine, etc., and has these things to show for his payments, must be in a better state of mind to see the point of paying so much a month for life insurance protection for his family than before he had had such experience."

Life insurance in force has increased from \$42,330,000,000 in 1920 to \$72,000,000,000 in 1925, while our savings-bank deposits have doubled in the last seven years and to-day represent 49½% of the total banking power of the country as against 49% ten years ago. In view of these data it is hard to escape the conclusion that payments are met through the increased earning ability of the purchaser, which, in the last analysis, means that he is performing a greater amount of work than would be the case if he did not have to meet payment of his obligations each month.

The foregoing line of reasoning and practical experience indicates that consumers' credit properly administered affords means under which the great desire on the part of the mass of the people to have motor cars is made possible of satisfaction, and the possession of these cars provides an incentive to work, thus affording a tremendous economic gain to the country.

In short, the desire to have and the ability to purchase motor cars provide an incentive to work that results in converting idle hours into the energy necessary to produce our motor cars at little or no economic cost whatever.

To me it seems that the record established in the prudent extension of consumers' credit in the purchase of homes, automobiles, sewing and washing machines, furniture and pianos, is its best defense. Many may feel quite nervous about consumers' credit and where it may lead because they do not enjoy the sense of security that has come to us in its use during the past seven years. But who among you is willing to assume the responsibility of prohibiting its use with the almost certain result of driving people to mortgage their homes, draw down their savings, borrow on life-insurance policies and to the extent that this will not supply money to purchase their requirements, have our factories reduce production, with consequent idle labor.

It used to be charged that the desire for automobiles led people to mortgage their homes to secure them. This is not so. Installment credit enables the purchaser who owns his home and has an income to budget that income to accommodate the automobile. This training to budget and spend for a good purpose is a worthy one and tends to make property owners of those who would otherwise fritter away their incomes.

The best estimates obtainable indicate that 75% of automobiles purchased are purchased under the installment plan, so this great industry can definitely be said to have been built up through the use of consumers' credit. Suppose the use of consumers' credit were denied with the result that its sales were cut in half, what would happen to our prosperity? Very few people realize how important a factor the automobile industry has been in the prosperity of this country. Yet if we stop to think of it, it is obvious that without the stimulation

which the rapid growth of this industry has given to numerous other industries and to business in general, the country could not have enjoyed so great a degree of prosperity as it has enjoyed in recent years, and that there would have been less employment of labor, a smaller aggregate consumer purchasing power, and a lower standard of living. It is certainly significant that the greatest automobile producing and using country in the world is also the richest country and has the highest standard of living. Of all the automobiles in the world (some 25,000,000), the United States has more than four-fifths.

The far-reaching beneficial effect of the automobile industry upon general business in the United States becomes more concretely evident when we consider that this industry in 1925 used one-eighth of all the iron and steel produced in the country, nearly one-seventh of the lead, a like proportion of the hardwood lumber, over one-fourth of the nickel and aluminum, more than half of the plate glass, and over two-thirds of the upholstery leather; that nearly one-eighth of the copper and more than one-seventh of the tin consumed in this country went into automobiles; while automobile production and use accounted for four-fifths of our gasoline consumption and for more than four-fifths of our consumption of rubber.

It is quite obvious that the demand for such amounts of important materials has contributed very directly to the activity of the industries supplying these materials and has given employment, and thereby provided consumers' purchasing power to many thousands of workers. The National Automobile Chamber of Commerce estimates that nearly 3,500,000 persons are employed directly or indirectly in the automobile industry. This is about one-twelfth of the total number of individuals shown by the 1920 census to have been gainfully employed in the United States in that year. These figures, however, do not include any estimate of the number employed in manufacturing machine tools and other production equipment for automobile plants, nor any estimate of the number employed in the large amount of road construction which has been carried on as a result of the wide-spread use of motor cars. If such employment were to be included, the total would be materially greater.

The automobile has been responsible for the rapid increase of good roads during the past few years, with the attendant improvement of conditions of rural life and stimulation of business in many sections. In rural highway improvement approximately a billion dollars a year have been expended during the past few years, all of which means employment and spells purchasing power.

The automobile industry now stands first among the manufacturing industries of the United States in value of products, the wholesale value of its output in 1925 being \$3,373,000,000.

The growth of the industry to its present size has unquestionably been made possible by the granting of consumers' credit. Without the development of installment buying no such expansion of the automobile industry with its attendant increase in general prosperity could have taken place. Since 75% of the automobiles are bought on the installment plan, it is perfectly clear what an enormous difference would have been made had no cars been sold except to persons who were able to pay cash down.

But although 75% of the cars sold are sold on the basis of consumers' credits, the fact is frequently overlooked that consumers' income has been quite sufficient to enable them to meet their payments and that at least four-fifths of all the cars now in use have been fully paid for. Thus the cars which are in process of being paid for at present out of current income represent not more than one-fifth of the country's total cars, and these are more than half paid for.

While the development of consumers' credit is no cure-all for industrial or economic ills, a higher rate of consumption of goods with its attendant higher rate of employment and enjoyment is a great stabilizer of national prosperity. Those of us who are studying this intensively often wonder if conditions in England, for instance, would not be better if idle hours were converted into productive energy through higher consumption.

Consumption requires production, production requires work, work demands wages, wages mean consumption and so the circle of prosperity is completed—the motor is work and the motive power a willingness to work.

When severe critics state that installment purchasing results

in conditions akin to slavery because of the debt contracted, it must be remembered that happy employment is not slavery. There is no greater happiness or contentment than that which comes from labor which has its incentive in a desire for better things for those we love. There are few, if any, successful men who have progressed without assuming some debt or responsibility which resulted in the incentive to work and accomplishment.

In conclusion, we may summarize the factors involved in the development of installment purchasing as follows:—

- (1) In principle, it is a natural evolution of credit.
- (2) As a credit development it must be administered upon the same principles as all good credit.
- (3) Experience with consumers' credit has proven it to be a sound and healthy thing when properly used and not abused.
- (4) Individual credit when prudently contracted creates an incentive to work and to produce more.
- (5) High consumption results in high production.
- (6) High production insures employment.
- (7) High production and consumption bring about a greater degree of individual progress and happiness.
- (8) Consumers' credit being economically sound in principle and practice, it remains for those concerned so to administer it that its benefits may be secured and its abuses eliminated.

DISCUSSION: INSTALLMENT PURCHASING¹

MR. BAILEY B. BURRITT (General Director of the Association for Improving the Condition of the Poor, in New York City):—In the long run family welfare will be affected unfavorably in so far as installment buying is identified with good business practices, and in so far as it has unfortunate features attached to it family welfare will be harmed. The Association for Improving the Condition of the Poor, however, is dealing with a group of families that does not represent quite the whole range of family welfare. If you were to talk with the individual visitors and nurses that visit the many families in their homes, through organizations such as the Charity Organization Society and the Society with which I am identified, you would find almost universal complaint against the installment system.

The reason is that we are dealing with families in which there has been a great disturbance of the economic situation. Because of the sickness or death of the wage earner, or his incompetence, or some other reason, these families find it impossible to make ends meet. Therefore we may find the factors of installment buying aggravated in these situations. At any rate, the first impression you get from talking with those who are in direct contact with the family is that on the whole the evils of installment buying under such circumstances seem to outweigh the advantages.

Nevertheless we recognize that there are distinct advantages where a boy, for example, was ready to go to his new job and because of sickness or some other emergency in the family was unable to procure the new suit that would make it possible for him to enter his new job as he would like to and as his family would like to have him, the purchase of the suit by installment payments was to the advantage of the boy, the family, and everybody concerned.

¹ A résumé of the discussion following the presentation of the papers by Professor E. R. A. Seligman, Professor John Maurice Clark, Mr. J. E. Rovensky, and Mr. Lawson Purdy at the first session of the National Conference on Business and Public Policy, November 17, 1926.

On the other hand, we are confronted with many situations in which the family has been induced to buy things, as has been indicated by Mr. Purdy,¹ that are beyond its ability to purchase, that are not really needed, and that in the long run have proven to be a burden to the already overburdened economic situation of the family.

It seems to us, therefore, that in installment purchasing, so far as it relates to the welfare of the families under our care, what is needed is a careful scrutiny, as was pointed out in one of the papers this morning, of the business methods of each individual business that is selling such goods. The group that we are dealing with lends itself to exploitation more easily than the average group in the community, probably, because of the fact that there is greater ignorance, less experience, less good judgment.

In so far as business organizations are guided by the aim of aiding the family to acquire a permanent, valuable possession, the situation will take care of itself pretty well. But in so far as there are concerns that are trying to introduce goods into families which cannot pay for such goods, and in so far as the main objective seems to be to get as large a first payment as possible and perhaps one or two subsequent payments, with every expectation that the article will come back into the possession of the seller for resale, not as new goods but as second-hand goods to similar families, installment purchasing proves socially injurious.

At any rate, it seems to us that a careful study of the business practices of organizations selling to families of low-range incomes would be advantageous. Such a study might indicate how far we could venture wisely in improving the contracts for perishable goods and, more generally, in standardizing business practices as regards that group of families whose lower range of income, greater ignorance, lesser experience make it less possible for them than for the average family to buy wisely under the installment plan.

DR. JOSEPH MAYER (professor of economics and sociology, Tufts College) pointed out that the installment plan really enabled the ultimate consumer to do what the manufacturers

¹ Cf. *supra*, pp. 108-111.

are already doing, namely, to transform future earning power into present purchasing power. This practice, he maintained, was justifiable in so far as it rendered possible intelligent, budgeted purchasing.

MR. BENJAMIN A. JAVITS (New York City:—Our economic system is sometimes called the credit system because it is based on the use of credit. Credit is the foundation upon which rests the negotiable character of private property, that is money, bonds, debentures, stocks, notes, etc. The negotiability of private property has brought our economic organization to its present position of power. Industry has constantly sought new spheres for expansion of the credit system. Our economic society, because of the profit motive, must ever continue to grow. Profit means that labor receives less than the selling price of the product. Labor is therefore left with insufficient means to buy back the things it produced, as Foster and Catchings point out in their recent book on *Profits*.

New markets or new credit facilities must therefore constantly be found in order to dispose of the surplus products so created. Capital has found virgin ground in its search for credit expansion in the field of the workingman's potential or stored labor power. Because industry must get rid of its surplus products, potential labor power has been permitted to sit at the table of the Knights of Credit and has been recognized as good collateral for merchandise.

Hence the present era of installment purchasing. Labor has, for the first time, been permitted to enter the Court of Capital. What significance has this for the present scheme of things?

As installment selling develops, the owners of industry, it appears to me, will be forced to guarantee that the workingman's stored labor power will continue to be used, that it will continually have a cash value, and that labor's earnings will not be interrupted. Capital is going to insure to itself, as well as to the laborer, that the market for this newly found "security" (potential labor power) will continue to be good. This might, in a way, provide one explanation of the new habit in our purchasing and distribution of goods which has been called "hand to mouth" buying. Logically, this goes hand

in hand with installment purchasing because "hand to mouth" buying provides more even employment and therefore further increases installment transactions through the stabilization of the employment market.

Industry in continuing its expansion will keep on producing and labor will have to be enabled to pay for more of the things produced, or in other words, get a larger line of credit. Wages will therefore have to be constantly increased. We know that the more labor is supplied with its wants the greater do its wants become. Capital has, in effect, said to labor, "You buy my goods and pay me out of your future wages and I will see that you are constantly employed."

Installment purchasing of commodities is here to stay. It is the duty of labor, industry and finance to stabilize themselves and find the scientific way of maintaining this newest development in the credit system so that it does not become a curse or go off in our hands like a stick of dynamite. Uncontrolled and unregulated it may do more harm than any group of lunatics could do in overthrowing the whole social order. With intelligent direction, it may be made a blessing for the age. We have our choice but choose we must. I therefore suggest the formation of an organization called the Installment Council of America, or whatever name you will, which shall study, counsel and advise with all those interested in the practice of installment sales, and so organize them that our economic ship may avoid the shoals upon which it must ground if it continues its adventurous journey without a pilot on what is yet an uncharted sea.

DR. A. L. WILKINSON of Baltimore, Maryland, humorously reminded the audience that medical service was to a considerable extent purchased on the installment plan, and more seriously emphasized the importance of teaching children the principles of prudent installment purchasing.

MR. WILLIAM TRUFANT FOSTER (see page 112).

MR. JOHN BALCH BLOOD, of New York City, asserted that the installment system was an intermediate method of participating in the use of property, between renting, where there

was no ownership by the user, and owning, where complete title vested in the user. He thought it untenable to criticize an intermediary method as harmful to business interests where both of the ends, of each of which it savored, were beneficial.

MR. W. T. DONNELLY, of New York City, speaking from the viewpoint of the engineer and the inventor, maintained that prosperity depends primarily upon inventions, and that installment buying affords to the purchaser an opportunity to develop character and foresight.

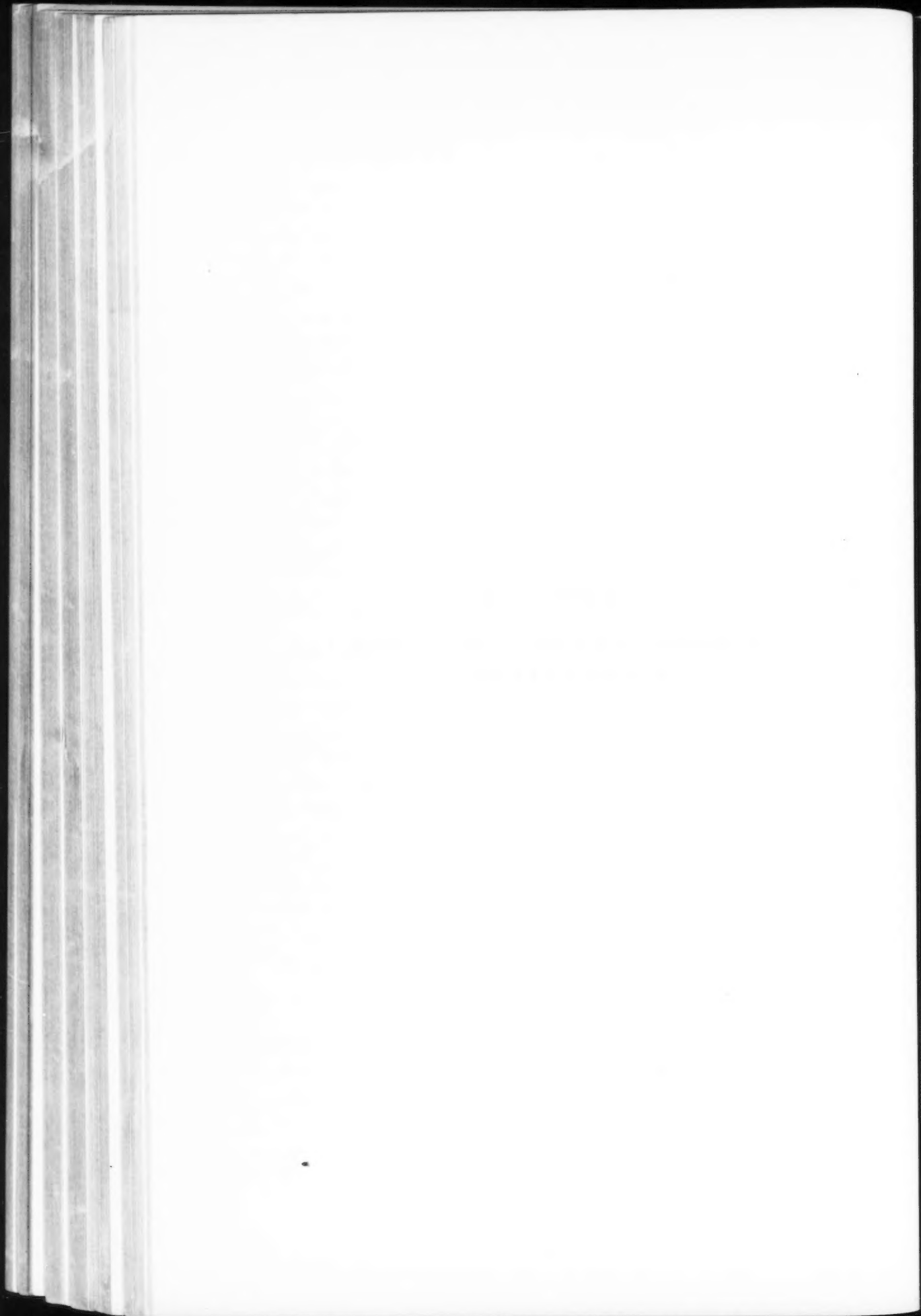
MR. HUGH FOX, of New York City, brought out the point that installment purchasing in some cases tended to divert the demands of consumers, as for instance, from theatre and concerts to radios. He also raised the question whether the dangers of overextended installment buying would become apparent only when the business rounded the cycle from prosperity to depression.

MR. RALPH J. WATKINS, of the Ohio State University, emphasized the importance of the time factor. The ten payment plan now extensively used in the sale of men's clothing involves a down payment of twenty per cent and ten weekly installments. This plan is equivalent to deferring the payment of the whole purchase price only thirty-one days, whereas the average time outstanding under the open-account system ranges from seventy to ninety days. In this case, installment selling means a decrease, rather than an increase, of credit privileges.

MR. J. E. ROVENSKY corrected certain misunderstandings regarding the practice of savings banks.

MR. EDWIN A. KRAUTHOFF of Kansas City, Mo., observed that the Great War was financed on the installment plan; life insurance companies were selling estates on installments; bonds were being liquidated and stocks sold on the installment basis. The variety of state laws on installment purchasing, he added, created a wealth of legal distinctions which were not unprofitable to the legal profession.

PART III
THE PROSPECTS OF INDUSTRIAL
CIVILIZATION



THE PROSPECTS OF INDUSTRIAL CIVILIZATION

RAMSAY MUIR

Former Member of Parliament

A VISITOR from the other side of the Atlantic may be permitted to begin by congratulating you upon being able to select, as your topic for discussion, "The Problems of Prosperity." To us, alas!, that must still appear a rather academic theme. There would be something grimly ironical in an Englishman's undertaking to discuss "the problems of prosperity" at a moment when we have not yet emerged from a coal stoppage that has lasted two hundred days, and when, apart from the miners, we have a million and a half unemployed, not to speak of some other burdens upon which I need not dwell. "The Uses of Adversity" would be a more appropriate theme. Perhaps that is why, in the topic which is assigned to me, I am permitted to float up into the clouds, and to discuss a highly speculative and theoretic subject.

In truth, I feel a good deal of hesitation in interrupting the very concrete and practical subjects you have been discussing, with a topic so vague and sweeping. I hesitate all the more because it is plainly impossible to say anything of value on such a theme within the compass of a short speech after dinner. It is like trying to take a kodak snap-shot of the solar system. My only excuse is that, though my subject has no very direct bearing upon the "problems of prosperity," it seems to arise naturally from your general subject—the relations between business and public affairs; and I shall confine myself to that aspect of my vast theme.

I think we must all feel that we stand at one of the great turning-points in the history of civilization; so much so that one sometimes feels that if this generation takes the right decisions, we may be about to enter upon an era nobler in possibilities than our fathers ever dreamed of; but if it takes the wrong decisions, our whole civilization may go down into the abyss, as other civilizations have done in the past.

Perhaps it may be best that each of us should do what nearly all of us have been doing—that we should wholeheartedly pursue our particular jobs, not troubling ourselves about the movement of civilization as a whole, but leaving the outcome to chance, or to the blind forces that control us, or to the Providence that shapes our ends; and abandoning the notion that humanity can in any degree consciously guide its own course of development. This sort of light-hearted fatalism is very common to-day, especially among the prosperous, probably because the issues that face us are so gigantic as to be beyond the grasp of our imaginations, and those who try to discuss them are apt to seem “unpractical.” The place of such thoughts, we often seem to assume, is in the preaching of “uplift” to audiences of earnest ladies. Are we not very ready to believe that speculations upon the trend of civilization are harmless and even pleasant relaxation for idle hours, but that they ought to be kept strictly in their own sound-proof compartments, where they cannot disturb those practical interests that are confined to a narrow range and to a short future? That is the “commonsense” view. Perhaps it is also the right view. One wonders.

Let me briefly outline two tremendous issues that are upon us. The first is the fact that science and industrialism have placed in the hands of the White Man, quite suddenly, the domination of the whole globe, and have imposed his modes of civilization upon all the peoples of the earth. Quite suddenly, I say; for the thing happened mainly during the nineteenth century, and was only consummated by the feverish “imperialism” of the period since 1875. Suddenly the whole world has been brought within a single political and economic system, dominated by the great White States. And the first outcome of this momentous event was the Great War. It was the first event in human history in which all the races and tribes of mankind were concerned, and knew they were concerned. It was also the first evidence of what world-unity under White leadership might mean.

Whatever you may think of the methods by which this tremendous event, the establishment of the White Man's supremacy, was brought about, the result itself was inevitable,

because the devouring energy of western industrialism needed the products and the markets of the whole world, and would not be denied. Nor can there be any question but that the effects of this economic exploitation of the world would have been immeasurably more ugly and cruel if it had not been regulated by civilized governments: that is the *ex post facto* justification for the extension of their political authority by the leading White States. Anyway, here is the great fact which stares us in the face: we are watching the dawn of a sort of world unity, under the leadership or domination of the White Man's industrial civilization. And henceforth the whole world is interdependent, every part of it affected by the fortunes of every other part: when one member suffers, the whole body suffers.

But this tremendous change has not taken place without producing profound unrest and dissatisfaction—an unrest that is greatest in those regions, such as China, where the "peaceful penetration" of western industrialism has not been regulated by effective governments. We have poured the new wine of industrialism and of democratic ideas into the ancient wine-skins of China and India; and no one dares foretell what will be the outcome of the resultant fermentation. Even among the primitive peoples of the world we have brought about an immense upheaval. Tribes in the dim interior of Africa which no white man had seen till Livingstone visited them fifty years ago are being forced to abandon the old accustomed ways of life. They wear blankets made in Belgium from Australian wool and eat canned food from America with the aid of can-openers made in Germany; and they pay for these things by producing rubber for the automobile factories of Detroit, or oil for the soap-vats of Port Sunlight.

The whole world is being rapidly industrialized. And the great problem of to-morrow is this: Can any unified guidance be given to this mighty process, so that the world may reap the benefits which it offers, without suffering possible ruin from the upheaval which necessarily accompanies it? That is a question which surely arises very directly from your topic—the relations of business and public affairs. Does not business, as well as humanity, demand an answer to this question? If no common guidance is possible, shall we not have to regard

humanity as a Frankenstein, who has called up the monster Industrialism, but is quite unable to control it? Is the huge locomotive engine of material progress unequipped, and incapable of being equipped, with brakes and regulators? If so, it is apt to leave the rails, and carry us to perdition.

Some sense of the necessity for a common regulating and moderating authority, in a world whose members are now indissolubly interdependent, helped to bring about the creation of the League of Nations. If that body is ever to fulfill its ends, its economic functions will turn out to be not less important than its political functions. For, if we are to come through the whirlpool in safety, either the League or some other body must be in a position to secure for the backward peoples the chance of healthy development without unjust exploitation; and it must be able to secure for all the energies of the world equal access to all the resources of the world. Whatever its merits or defects, the League of Nations is at this moment not merely hampered but crippled by the abstention of the greatest of industrial states. I have no intention of discussing that vexed question; I am only recording facts. The abstention may be wholly justified. But I ask whether, at this juncture, some common regulating authority is not needed. And if that is so, I ask further whether those who are dissatisfied with the imperfect device already instituted ought not to work out the scheme of a better alternative, not merely for preventing war, but for guiding humanity through a difficult place. For surely we all equally share responsibility for the tremendous difficulties and opportunities of a unified world.

One alternative, indeed, has been hinted at, in surprisingly different quarters. Mr. Henry Ford, the optimist manufacturer, and Mr. Bertrand Russell, the pessimist philosopher—I love to couple them together—both seem to hope that the world will be saved from chaos by the assumption, on the part of a group of industrial magnates, of a sort of irresponsible dictatorship. This new dominion, if it ever comes, will rest wholly upon material and not upon spiritual grounds. We need not, perhaps, take this anticipation very seriously, except in so far as it reflects the widespread distrust of existing governmental institutions which marks our time. The great ques-

tion still remains, and no generation of men have ever had a more difficult problem put before them by the sphinxlike Fates, who will exact the uttermost penalty for a false reply. Is it too much to say that the prospects of industrial civilization, and the prospects of world-unity, depend upon the kind of answer we give to this question during the next generation?

Turn now to another aspect of the same problem, which concerns us still more intimately. Not only has the industrial civilization of the White Man conquered the world, but in all the White societies it is itself undergoing a rapid transformation which must have profound social effects. Am I not right in saying—indeed, Mr. Filene has already used the phrase—that we are in the throes of the second industrial revolution?

The first consisted in large-scale production by machine-power, in the use of the new power of steam, in new methods of communication, the railroad and the telegraph, and in new and elastic modes of finance through the joint-stock bank and the limited liability company which enabled enterprises to be undertaken that were beyond the powers of the individual. The second revolution consists in mass-production upon an unheard-of scale, in new ingenuities of mechanism, in new forms of power, in new methods of transportation, and in extensions of credit devices hitherto unimagined.

The first industrial revolution took us by surprise, especially in England, where it began. And because it took us by surprise, and we had no means of guiding it, it brought to us not only increased wealth but some very undesirable social consequences. It condemned us to a dirty and coagulated urban civilization. It severed work from ownership, and from the pride and responsibility of ownership. It caused very painful strains and stresses in the body politic, and a state of social war which was extremely unhealthy, and even ruinous. Slowly we awakened to the necessity of regulating this change, and of using the powers of the State for those purposes for which the State exists—for ensuring to all its citizens, in every sphere of life, peace, justice and liberty. The result was an immense increase of the functions of the State in every civilized community, an increase that has been going on pro-

gressively for more than a hundred years. But because we had never thought out the principles of State action in this sphere—because we had never discussed and defined what the State ought to do and what it ought not to do—a great deal of what we did was ill-conceived, clumsily improvised, excessive at one point and defective at another.

What are we going to do about the second industrial revolution now upon us? Are we going to try to guide it intelligently so that the community may gain from it the maximum advantage at the minimum cost of dislocation and suffering? Or are we going to drift and improvise, as we did a hundred years ago, and have been doing ever since? Is it not time that we thought out, as clearly as may be, the principles of state action in the industrial and economic spheres? And can there conceivably be any questions which can be more appropriately addressed to such a body as this Academy than those which I am now putting to it—the questions, how far is it possible for the community to guide and regulate a tremendous economic change, and what are the functions which the State can profitably perform to this end? I am aware that I am here treading upon a thin crust of hot lava, and may easily crash through into the most volcanic controversy. For there are two rival slogans which seem to have a sort of philosophy behind them, and which have to some extent been driven into the public mind by the thunderous clamour of rival hosts. And both of them seem to me to suffer from the not unimportant defect that they have no relation whatsoever to the facts.

There is the slogan of Socialism, which asserts that the State should have everything to do with industry, that “all the means of production and distribution” should be nationalized, and that because the ownership of capital is badly distributed, it should all be concentrated in the hands of the State. This slogan seems to me to overlook the fact that the driving force of all progress has always lain in individual initiative and inventiveness, and that the true remedy for bad distribution is not concentration but better distribution. And on the other hand there is the slogan of *laissez-faire*, which seems to be undergoing a strange revival in these days, perhaps because of our growing disillusionment about the working of

the machinery of democratic government—the slogan that the State must have nothing to do with industry. This cry involves an even more fatuous disregard of the facts than the other, because it disregards the obvious and glaring fact that the State always has regulated industry, and does so in every country more actively to-day than ever before. If we are uneasy about our machinery of government, that is a good reason for overhauling and improving it, and for strengthening the steering-gear that is working badly: it is not a good reason for throwing the steering-gear overboard. It is every bit as foolish to imagine that the locomotive engine of progress can run safely without brakes and regulators (which must be powerful in proportion to the power of the locomotive), as it is to imagine that the brakes and regulators can somehow be made to perform the function of the steam.

It is one of the dangers of democracy that we are prone to carry on our community-thinking mainly by the trumpeting of slogans, and slogans are the worst enemies of clear thinking. There is no respect in which this is more true than in regard to the vitally important subject which I have been trying to discuss. May I not, indeed, say that it is not only a vitally important question but an eminently practical and urgent question? Is there any need greater than that, at a turning point in the history of civilization, and in the midst of a tremendous transformation in the conditions of human life and in the relation of human societies one with another, we should try to think out and to define clearly what the State can and ought to do, and what it cannot do and should not try to do, in the economic sphere? Is there—putting aside the slogan-mongers on both sides—any clear and intelligible body of accepted thought on this subject in any country? I think not.

The functions of the State (and of public bodies subordinate to the State) are already of vast range and importance, and must and will become far greater. Do not let us imagine that law and regulation involve a restriction or impairment of liberty; on the contrary, if rightly conceived, they provide the positive conditions without which liberty cannot exist. In this, as in every other sphere, liberty is dependent upon law,

and created by law, and every enlargement of liberty is the result of an enlargement and refinement of law. Badly conceived and badly designed laws, due to muddled thinking, may impair liberty and stunt individuality, but even so they are better than no laws at all. A bad currency system or a bad banking law may damage industry gravely, but industry can scarcely exist at all if there is no State regulation of these matters. A bad land system may hamper productivity, deny to the citizen access to the chance of utilizing his powers, and enable the holders of land to mulct and exploit the community; but there must be *some* common regulation of the conditions on which land may be held. A bad system of company or corporation law may render possible many abuses and injustices, and I am inclined to think that we have not yet adequately addressed ourselves to the problem of creating a system of regulation for trading companies, which is adapted to the practice of to-day; but without *some* system of corporation law business could not go on at all, and the State is responsible for whatever system exists. A bad system of law regarding associations (for example of employers and employed) may on the one hand deprive the community of necessary modes of cooperation and self-help, or may on the other hand expose the community to be hurt by the strife of factors it is unable to control, as the English community was by the faction-fights of groups of barons in the Wars of the Roses; but the State is responsible for whatever power these organizations possess.

In other words, we *must* have a system of State regulation of industry. There is no getting away from it. It may be a good or a bad system, a wise or a foolish system, but it always must exist. Whether it is wise or foolish will depend upon whether it is based upon clear and courageous or muddled and makeshift thinking. Governed by our foolish slogans, we have not enough clear thinking to-day upon this momentous question. And this is peculiarly unfortunate just because we all feel that we are at an extraordinarily critical point in the history of our civilization, when wise guidance of the community in these matters is supremely important, and when easy catchwords and slogans are peculiarly dangerous. The future very surely depends upon the way in which this generation

uses its opportunities and accepts its responsibilities. And there is no sphere in which the help which an Academy like this can give is more plainly needed than in the discussion, the analysis and the diffusion of sound thinking as to the right relationship between the public regulation and guidance, on the one hand, and the private enterprise and driving force on the other, which are both necessary if the engine of progress is to draw us safely to a happy destination.

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